International Property Tax Institute

PRESIDENT'S MESSAGE

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A recent report has highlighted the regressive and unfair nature of the council tax system in the UK. For those who may not be familiar with it, council tax is the annual property tax paid in respect of some 25 million residential properties in England, Scotland and Wales. Almost 30 years ago, the government headed by Margaret Thatcher decided to abolish what used to be known as "domestic rates" - the previous annual property tax which was based on annual rental values - and replace them with a flat rate poll tax (called the community charge). This led to violent riots in various parts of the UK and resulted in the poll tax being quickly replaced with council tax which was based on the capital value of domestic properties. Each domestic property was placed into one of eight capital value "bands" with the amount of annual tax payable being determined by the band into which the property was placed. This "quick fix" has been in place ever since and has never been revised or revalued (except in Wales), despite many reports calling for it to be updated.

The latest of these reports is one published by the Resolution Foundation which describes council tax as "outdated, regressive and functions like a poll tax". The Resolution Foundation has found that council tax today shares many of the features of the poll tax it replaced, in particular in having only a very weak link to property values. It says this is because council tax operates within wide bands with a single band covering significantly different property values. For example, among band A homes in the northeast of England, the lowest-value tenth of properties were worth £65,000 or less in 2016 while the highest-value tenth were worth at least £130,000. "Given they face the same tax bill, this results in effective council tax rates at least twice as high at the bottom of the band as at the top," the think tank says. It adds that local variation in council tax rates and "severely out-of-date valuations" mean that some areas with many high-value properties can charge low rates, causing vast regional disparity. Someone living in a property worth £100,000 pays about five times as much tax relative to property value as someone in a home worth £1 million. One idea the foundation suggests is a 1 per cent tax rate above a £100,000 allowance per property, which would mean no tax for the bottom 14 per cent of properties nationally. It says this would boost revenue by £8.6 billion.

The Resolution Foundation states, "We find that council tax is now too close to the hugely unpopular poll tax it was intended to replace. Its structure is distinctly regressive relative to property values, and valuations have not been updated for 27 years. Property taxation did not keep up with booms in property wealth, and the young are disproportionately affected both by council tax's regressivity and the negative distortions that council tax and stamp duty have on the housing market."

The paper published by the Resolution Foundation looks at a wide range of options for reforming property taxes, including:

- Reform within the current council tax system, such as emulating changes in Scotland where tax has been increased for higher council tax bands, or introducing a limited 'mansion tax'.

- Scrapping council tax and replacing it with a tax proportional to up-to-date home values. A flat charge of 0.5 per cent of value per year would raise £1.6 billion a year compared to council tax.

- A progressive structure, including a tax-free allowance per property and potentially a top rate for the most expensive properties. A £100,000 allowance would mean no tax for the bottom 14 per cent of properties nationally, while regionally-specific allowances could be used to reflect big variations in property prices. An illustrative system of regional allowances (ensuring the least valuable 10 per cent of properties in each region are tax free), with a 1 per cent basic rate and a marginal rate of 2 per cent for the most valuable properties would raise £8.4 billion.

- Reducing residential stamp duty. Raising stamp duty's tax-free threshold from £125,000 to £925,000 would cost £5.2 billion, while cutting rates in half would cost £3.2 billion. A revenue-raising replacement of council tax could therefore allow significant cuts in stamp duty while simultaneously allowing a major funding boost for health and social care.

- Making landlords pay rather than tenants. Internationally, the UK is unusual in levying property tax on the occupiers rather than owners of property. We assume (conservatively) that moving the charge to landlords would not affect the incidence of taxation – as higher taxes for landlords may be passed on through higher rents. However, the administrative burden of council tax could be greatly reduced if landlords – who are fewer in number and change less frequently – footed the bill.

- At least reversing cuts to income-based council tax reductions, which should be a critical part of any property tax.

- Allowing deferral of property tax, or payment in the form of an equity stake. Some households are cash-poor but asset-rich, which points to a role for allowing those assets to be used in payment. Such a scheme – common abroad – would give older property owners in particular the option of paying less tax in the short term.

Although this may be seen as something of a parochial issue for the UK only, given the large number of properties affected and the nature of the suggested reforms, I think it is of wider interest. It will be particularly interesting to see what response the report receives from the current UK government.

Just taking a brief look back at March, IPTI's Corporate Advisory Committee held an interesting discussion session on the issue of "appeals" made by municipalities, school boards, etc. Known as "counter appeals", these are where interested parties seek to increase property tax assessments and often involve agents acting on behalf the stakeholders concerned. This creates particular problems for large corporate entities who have to deal not only with the relevant assessor in seeking to amend a valuation, but also agents acting for other parties with an interest in increasing their property tax liability.

Another interesting event that took place in March was a meeting of the Tangible Assets Board which reports to the International Valuation Standards Committee. The Board kindly invited me to address their meeting in London on the issue of valuation standards for property tax valuations. There is a widespread perception that the International Valuation Standards (IVS) do not apply to valuations for property tax. However, the 2017 IVS states that "They are designed to be applicable to valuations of all types of assets and for any valuation purpose." My suggestion was therefore that the IVS do apply to valuations for property tax but, if that is right, it would be helpful for this to be confirmed. In my view, the key parts of the IVS such as the need for competence, objectivity, use of appropriate valuation methodology, etc., apply equally to property tax valuations as they do to any other type of valuation, and these general requirements do not interfere with the supremacy of the legislation that governs property tax in the particular jurisdiction concerned. I look forward to the outcome of the Board's deliberations on this topic.

The World Bank held its annual Land and Poverty Conference in Washington during March, and I am pleased to report that two Members of IPTI's Board of Advisors presented papers at the event. David Magor, from the UK, presented a paper on "The Fight to Eliminate Fraud, Corruption, Tax Avoidance and Evasion in Land Administration" and Riel Franzsen, from South Africa, spoke about the "Challenges and Prospects for Property Taxation in Africa".

On the subject of IPTI's Board of Advisors, I am pleased to announce that we have two new Members of the Board. One is Roy Kelly who is Professor of the Practice of Public Policy Studies, Sanford School of Public Policy, Duke University and the Director of the Program on Fiscal Decentralization and Local Government Financial Management. Our second new Board Member is Dr. Samuel Jibao who is the Revenue Advisor to the Ministry of Finance in Sierra Leone. He is also an Associate Lecturer at Njala University in Sierra Leone and a Senior Lecturer at the African Tax Institute, University of Pretoria, South Africa. Both are very welcome and will be valuable additions to IPTI's Board of Advisors.

Looking ahead, during April, I will be one of two presenters in 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 "Role of the Assessor and Expert in Mediations and the Negotiation Process". My co-presenter will be a very experienced lawyer and, between us, we will consider a number of questions such as whether the issue is sufficiently complex to retain an expert; the expert's duties; appropriate behaviours; the preparations required; and the role and responsibilities of the assessor and other experts that may be involved.

Another IMA-IPTI webinar we will be holding in April is on the topic of the "Valuation of Special Purpose and Unique Properties". This webinar will provide an understanding of the methodologies used for valuing such properties for assessment purposes. The presentation will include the "special purpose litmus test" and will focus on distinctions to be made in special purpose construction, special purpose occupation, economic life of special purpose properties and value trends of special purpose properties. Both single purpose and mass appraisal valuation perspectives will be covered.

Also in April, we will be holding a one-day IMA-IPTI seminar which will be looking at the "Valuation of Land in Transition - Highest and Best Use". The determination of highest and best use (HABU) is a very challenging process for assessors and appraisers, particularly as it relates to land in transition.

The objective of this seminar is to provide attendees with a better understanding of HABU and the principles to be applied in the valuation of land for property tax purposes. Consideration will be given to both single property and mass appraisal valuation processes and practice. Valuation and legal perspectives will be covered, and jurisprudence and recent court/tribunal decisions will be discussed.

Moving on to May, we will be holding another Ontario Property Tax Summit. This will provide an opportunity to review progress since our last summit and consider what further improvements may be required. In June, our 2018 Mass Appraisal Valuation Symposium (MAVS) will be held in Halifax, Nova Scotia, Canada in cooperation with the Property Valuation Services Corporation (PVSC) of Nova Scotia. We will also be holding a pre-symposium one-day workshop entitled "Addressing Challenges in Property Taxation" which should be very interesting.

Later in the year we will be delivering a series of webinars in partnership with the Royal Institution of Chartered Surveyors (RICS). The topics will include the "Valuation of Contaminated Properties"; "Preparing Expert Reports for Valuation Disputes"; the "Valuation of Public-Private Partnerships"; and "Giving Expert Evidence in Valuation Disputes".

Our annual Caribbean conference, held in partnership with the RICS, will take place in Montego Bay, Jamaica in October 2018. Details of the agenda will be available in due course, but it promises to be a very interesting and enjoyable event.

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.

According to the U.S. Census Bureau, the average American household spends $2,197 on property taxes for their homes each year. A recent report examined all 50 states and the District of Columbia to determine which states were best and worst when it comes to property taxes. Rather than just look at published tax rates, the report looks at the amount of property tax paid in respect of median-priced homes to determine an "effective" tax rate. Using this approach, Hawaii ranks as the state with the lowest effective tax rate at 0.27 percent. However, the state's median home value is $538,400 which means that for a median-priced home in Hawaii, the annual taxes would amount to $1,459. Next on the list is Alabama, with a median home price of $128,500 and an effective property tax rate of 0.43 percent, meaning the owner of a median-priced Alabama home would pay $550 in taxes. Rounding out the five states with lowest property tax rates are Louisiana (0.51 percent effective property tax), Delaware (0.55 percent), and, perhaps surprisingly, the District of Columbia. However, like Hawaii, D.C. has a high median home value at $506,100, but a low effective property tax rate at only 0.56 percent. At the other end of the scale, New Jersey has the highest effective property tax rate at 2.40 percent. Jersey homeowners with a median-priced home worth $316,400 would be paying $7,601 in annual property taxes. Coming in second is Illinois, with a 2.32 percent effective property tax rate, which works out to $4,058 in taxes on a median-priced home worth $174,800. The rest of the five states with highest effective property tax rates are New Hampshire (2.19 percent), Connecticut (2.02 percent), and Wisconsin (1.95 percent).

In Canada, the government in British Columbia has made some interesting changes in its property tax systems. One of these changes is action to make the provincial property tax progressive. It should be noted that this tax is in addition to the municipal property tax. The basic school/property tax, i.e. the provincial tax, is calculated based on a “mill rate” that is multiplied by a property’s assessed value. The mill rate is recalculated each year to meet a revenue target. This means that, unlike the provincial sales tax, for example, which has a set rate so that tax revenues grow with the economy, the property tax has not been linked to the real estate price escalation seen in recent years. Since its inception, the same tax rate has been applied to all properties regardless of the overall property value. The 2018 Budget introduced two new progressive tiers on top of the basic property tax, starting in 2019, and these do have fixed rates. For assessed property value above $3 million, the rate is 0.2%. A second tier applies for assessed value in excess of $4 million at a rate of 0.4%. The BC government has also expanded the foreign buyer tax (FBT). The FBT was originally set at 15% and applied to Vancouver. Budget 2018 increases the FBT to 20% and expands its scope beyond Metro Vancouver to include the Fraser Valley, the Capital and Nanaimo Regional Districts on Vancouver Island, and the Central Okanagan Regional District. Another change is the introduction of a new “speculation tax” which I referred to in my previous monthly newsletter. It will be interesting to see what impact these new property tax measures have.

In China, political advisers have identified some of the key areas for legislators drawing up China's first property tax, including who will set the rates. The legislation, under discussion for several years, is seen as an essential part of the structural reform to improve local governments' tax systems. The head of the Chinese Academy of Fiscal Sciences, said “The legal framework is expected to clarify whether provincial governments will be able to determine their own tax rates based on local conditions”. He said decisions are also expected on how much of the tax will go to a local government's coffers, as well as who is expected to pay; all homeowners or just those with multiple properties. He suggested making property tax a type of regulation tax, meaning that it would only start to be levied on individuals after they have acquired a certain number of properties, pushing them over a threshold, which would save housing resources and narrow the gap between rich and poor. “Property tax is necessary now, but everything should wait until the draft legislation,” he added. The former deputy head of the State Council's Development Research Center has predicted local authorities will probably have relatively large discretion over tax rates and collection. The finance minister wrote that China's property tax will be a crucial part of the next phase of reform. “The tax will be charged based on assessed values of commercial and industrial properties, as well as personal residential housing” he said.

In Pakistan, the Sindh government, in collaboration with the World Bank, has decided to devolve property tax collection to the local bodies, DMCs, for which a proper database and capacity building of concerned local bodies staff would be undertaken shortly. The chief minister said that he had already devolved property tax to local bodies in Karachi KMC, but they have to develop a system for collection. The World Bank team said that the current collection of property tax in Sindh is Rs2 billion while there was a potential of Rs7.2 billion. Citing the examples of Punjab, they said that they collected $88 million during 2015-16, Chennai collected $90 million, Indian Hyderabad collected $179 million, Bangalore $201 million and Mumbai $373 million. “These figures are enough to assess how much Karachi, in terms of its size and household, can collect property tax” they said.

In Hong Kong, owners of empty flats could be taxed under a new plan to tackle the housing shortage. Policymakers are studying the possibility of imposing a "vacancy tax" on property owners hoarding empty flats as the latest measure to tackle the city's acute housing shortage. Hong Kong's residential property prices continue to surge to record highs despite the government's efforts to cool the overheated market by ramping up land supply and increasing stamp duties. The latest statistics from the Rating and Valuation Department (RVD) showed the home price index rising 1.27 per cent to 357.5 in January, hitting a record for 15 consecutive months - the longest stretch of gains since 1993. During March, I had a meeting in London with P K Tang, the Commissioner of the RVD, who is a Member of IPTI's Board of Advisors. He is aware that other cities (e.g. Vancouver) have taxes on unoccupied properties to combat rising prices. It will be interesting to see whether a "vacancy tax" is introduced in Hong Kong in due course.

And finally, a more serious issue than my usual "and finally" story. In Israel, property tax has become a very controversial topic among the religious leaders in Jerusalem following the issue of property tax bills totaling millions of dollars applicable to all church properties that are not actual houses of worship. The Mayor said, "It is absurd for Jerusalem residents to fund municipal services for the churches … on their own, and for the municipality to be prevented from collecting enormous sums that could significantly improve the city's development and services". But the move was controversial as, for five centuries, successive rulers of the Holy Land have exempted all church holdings from property taxes. Church officials, angered by the recent tax bills and the belief that Israel is trying to change the religious status quo in the contested city, decided to close the Church of the Holy Sepulchre for three days in protest. They issued a statement that said "We, the heads of churches in charge of the Holy Sepulchre and the status quo governing the various Christian holy sites in Jerusalem - the Greek Orthodox Patriarchate, the Custody of the Holy Land and the Armenian Patriarchate - are following with great concern the systematic campaign against the churches and the Christian community in the Holy Land". The government reportedly fears setting a precedent that, once rooted in law, will enable Jews and Muslims, who have many more religious institutions, to demand the same fiscal status. The Prime Minister temporarily defused the controversy by ordering the Mayor to suspend the tax bills and appointing a committee of church leaders and Israeli officials to negotiate. Almost half of the city's residents, including predominantly ultra-Orthodox Jews and Muslim and Christian Arabs, are exempt from property taxes because they live below the poverty line, according to the Israeli Central Bureau of Statistics and National Insurance Institute. Although the national government helps support Jerusalem's infrastructure, the mayor says that what the city gets is insufficient, so taxing church properties is necessary to fill the gap. The city also sent bills last month to another tax-exempt landowner, the United Nations. The municipality ultimately hopes to collect taxes from 887 properties belonging to various churches and the U.N. But because the city's Christian denominations - most notably the Greek Orthodox Patriarchate - own vast swaths of land in Jerusalem and elsewhere, tax policy has both religious and practical implications, said an expert on Jerusalem's multicultural architecture. He also questioned why the churches should be exempt from paying taxes on commercial property when comparable Jewish- and Muslim-owned property is not. It is clear that, yet again, property tax is a sensitive issue!

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