PRESIDENT'S MESSAGE

June 2018

At several IPTI events in recent weeks I have spent time taking about property tax policy and, in particular, the issue and impact of exemptions.

This is a topic that continues to create problems in most property tax jurisdictions, mainly because policy-makers, i.e. politicians, either don't think through, or understand, the implications of their actions. It is very easy to offer tax breaks as a means of solving a perceived problem, but to do so often creates further problems elsewhere in the system.

A wise man once said, "The best tax is one that someone else pays". Whilst we might all agree with that notion, in reality, someone has to pay and, in terms of property tax, it is usually desirable to have a wide tax base so the tax burden is spread as far, and as fairly, as possible.

Extreme examples of exemptions being offered include an offer to remove property tax from all residential properties if people voted for the person or party making that offer. This happened not so long ago in Italy, Ireland and Trinidad & Tobago. In all these cases, people voted for the person or party making that offer and the property tax was subsequently abolished. However, when economic conditions changed and revenues from other sources diminished, property taxes for residential properties had to be reinstated creating major political problems.

Assuming the cost of providing essential local services funded, either in whole or in part, by property taxes remains broadly fixed, any exemption for one taxpayer or group of taxpayers means that others have to pay more. Exemptions do not normally provide a "no cost" tax break; they simply "shift" the tax burden which may, in many circumstances, create unfairness.

There are quite a few recent examples which show the importance of property tax policy in terms of exemptions. For example, the Illinois Supreme Court recently heard a case concerning the constitutionality of a 2012 law that sets standards for property tax exemptions for state hospitals. The law states that hospitals "shall be issued a charitable exemption" if the value of their charitable activities exceed what they would have paid in property taxes.

A taxpayer argued that the law is unconstitutional because it requires the Department of Revenue to issue exemptions regardless of whether hospitals meet a constitutional requirement that the property be used exclusively for charitable purposes. The real issue is, of course, a desire to minimise exemptions and bring such hospitals back into the property tax system to reduce the tax burden for other taxpayers. The decision is awaited, but this is just one of many similar cases where exemptions are being challenged.

A recent investigation by an American media organisation reported some interesting facts relating to exemptions. It found that, for example, Minneapolis has $13,930,404,530 in tax-exempt property. That represents 23 percent of the total taxable value of all property in the city, which is $61,356,797,130. They also found that, in 1996, homeowners paid about 35 percent of the property tax bill. Then came the recession, along with several tax changes. Homeowners now pay 60 percent of the bill.

The investigation also revealed that, in Seattle, there is $38 billion in tax exempt property, about 17 percent of the total market value. In Denver, there is $19.4 billion in tax exempt property, about 13 percent of the total market value. In Pittsburgh, a city with several universities and hospitals, there is $11 billion in tax exempt property that represents 36 percent of the total market value.

These numbers show why taxpayers are increasingly concerned with the issue of exemptions and whether they are being fairly applied by policy-makers.

Moving on, a recent article argues that “the greatest source of wealth in the world today, worth far more than oil or gold or equities, is the land beneath our feet. The world’s real estate, its total wealth assessed at almost $275-trillion, is far more valuable than any other commodity or asset. In countries rich and poor, real-estate prices have risen faster than inflation.” But, the author goes on to say, that huge increase in wealth is beyond the reach of taxation. Rising property values cannot, in many places, be tapped for the greater public good. Property tax, commonplace in North America and Europe, has proven impossible to implement, assess or collect in much of the rest of the world. It’s a big part of the reason why otherwise successful countries have filthy streets, inadequate schools, and faltering democracy.

The article went on to state “The use of land as a basis for generating revenue is under-used in the majority of countries – the reasons vary from country to country, but it often begins with inadequate property registration”. Across Africa, between 60 and 70 per cent of privately owned property is not registered. In many East European countries, the collectivization of land during the Communist era has left no records of land title, and the incomplete transition has left bureaucracies incapable of managing it. War-torn countries, such as Afghanistan or Somalia, find themselves with all land records destroyed.

Many countries officially have property taxes (usually levied annually) but rarely collect them. India and Egypt are among many countries that only levy taxes after construction has been completed – which is why a majority of buildings appear to be not quite completed, with a top floor missing and taxes never paid. Others only charge tax when land changes hands, pushing property sales underground with “black money” cash transfers.

Reversing this course is possible. Some places with zero property records – such as the cities of Hargeisa, Somalia, and Kabul, the Afghan capital – have successfully conducted property inventories that have made value assessments, and eventually taxation, possible. Cities in Colombia now finance all their transportation growth through one-time tax charges on properties that will benefit from it (though the lack of an ongoing tax revenue stream to pay for maintenance could prove a big problem).

But there's more interest than ever before in making property tax work. Recently, the Chinese Premier announced that China will "push forward legislation" to introduce the country's first national property tax. This comes after a 13-year property boom that has done little for Chinese cities, which generally fund themselves by selling land to developers, an act that contributes to inequality and pushes land prices higher. But China will have a hard time valuing property, which, on paper, still belongs to farming collectives; analysts say it could be three years before China has any ability to implement such a tax.

Moving on to IPTI activities, we held a very successful Ontario Property Tax Summit during May in Toronto, Canada. We had a number of leading experts making presentations on all aspects of the property tax system in the province. This included the President and other senior representatives from the assessing agency, the Municipal Property Assessment Agency (MPAC) who outlined what improvements they had made in the way in which they deliver their services and what further improvements they have planned. We also had speakers focussing on property tax policy and, in particular, the role of both the provincial and municipal governments in making and implementing policy decisions. We also had the Chair of the Assessment Review Board (ARB) talking about recent changes in the ARB Rules for dealing with appeals and a number of property tax lawyers outlining their concerns about the Rules. Overall, it was a very interesting and informative event and IPTI will be preparing a report about it to go to all stakeholders.

Looking ahead, in June, our 2018 Mass Appraisal Valuation Symposium (MAVS) will be held in Halifax, Nova Scotia in cooperation with the Property Valuation Services Corporation (PVSC) of Nova Scotia. We have a great line-up of speakers from around the world who will be sharing their knowledge and experience with regard to many different aspects of property tax systems. We also have people attending from a large number of countries around the world, so it promises to be a good opportunity to network and share best practice. Immediately prior to the MAVS we are holding a one-day workshop entitled "Addressing Challenges in Property Taxation" which also has a great line-up of participants and should be both interesting and informative.

Also in June, we are holding another in the series of professional webinars we run in partnership with the Institute of Municipal Assessors (IMA). This webinar will be on the subject of the "Role of the Advocate in Assessment Appeals" and, among other issues, will cover effective advocacy for electronic or telephone hearings; when to request an in-person hearing or oral motion; basic tips for written advocacy; and the advocates' role in preparing the expert witness.

Later in the year we will be delivering a series of webinars in partnership with the Royal Institution of Chartered Surveyors (RICS). The topics to be covered 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 in selected countries around the world.

In Hong Kong, the government is debating imposing a tax on vacant properties as a way of helping ease the city's acute housing shortage. A number of locations worldwide have similar taxes. A recent article provides the following information:

Paris: Introduced in 1999, tax is levied on property in certain municipalities that has been unoccupied for more than 90 consecutive days. Owners of the property pay the tax, which is 12.5 per cent of the property's value in the first year and 25 per cent from the second year.

Singapore: Introduced in 2011, the city state charges local developers additional stamp duty if they fail to sell 100 per cent of units in the development within five years. Foreign developers must sell 100 per cent within two years. The rate is 10 per cent of the purchase price of the site if bought before January 12, 2013 and 15 per cent for sites bought after that date.

UK: In 2013, Scotland and England imposed higher rates of council tax on owners of empty properties: up to 50 per cent higher for homes in England unoccupied for at least two years, and up to 100 per cent in Scotland for property vacant for at least one year. Wales followed in 2017 with up to 100 per cent extra council tax on properties vacant at least one year.

Israel: In 2014, the Israeli government granted municipalities powers to double local taxes on empty homes. It set the maximum period a house can be vacant at nine months. Owners are liable.

Vancouver: In 2017, the Canadian city began imposing tax on owners of residential property unoccupied for more than 180 days during a tax year that is not their principal residence. The tax is 1 per cent of the property's assessed taxable value.

Victoria, Australia: From January 2018, the state government applied a tax on owners of residential properties in certain suburbs in the city of Melbourne that have been vacant for more than six months in a year. The tax is 1 per cent of the capital improved value of the property.

In Canada, the government in British Columbia is ruling out any change to a tax on high-value homes that has prompted protests in the Vancouver region. A spokesman said that legislation enacting the tax has been passed, and the government is committed to following through with a policy that she called "the right thing to do." The government's recent budget included an increase to the school tax, which is paid through property taxes, on homes worth more than $3-million. Despite its name, the school tax does not directly fund schools; instead, it is added to general revenues. The government is looking to the tax to raise funds for various parts of its agenda. Opposition to the school tax increase has been escalating, particularly in those parts of Vancouver which have many homes valued above $3-million. Critics have said the tax is unfair to homeowners, particularly seniors, who plan to use their real-estate assets in retirement. The additional 0.2 percent tax applies to the portion of a residential property's assessed value that exceeds $3-million, but does not exceed $4-million. An additional tax rate of 0.4 percent applies to the portion of the assessed value over $4-million.

In New Zealand, the issue of whether or not to introduce a land tax continues to cause concern. Horticulture New Zealand has made a submission to the Tax Working Group on the Future of Tax saying it does not support land tax. The submission is endorsed and supported by a further 17 organisations. "Any land tax would be a double tax, as land owners already pay rates to local government based on the value of their land," say the organisation. They say that using the property tax system to create housing affordability, reduce the cost of productive land, and drive environmental outcomes, is asking too much of the tax system, will result in distortions, and create further unintended consequences. They also said, "We do not believe the Submissions Background Paper from the Tax Working Group makes a case for substantive change away from the current broad-based and low-rate structure."

In Greece, new "objective values" are due to be issued in June. Some 7 million property owners will find out this month what the new taxable rates in their area will be, ahead of receiving their Single Property Tax (ENFIA) pay notices in the last few days of August. The recently-formed committee tasked with processing the zone rates recommended by property surveyors has not yet completed its work, which has led to further delays in the announcement of the new so-called "objective values" (property rates used for tax purposes) and possibly to the dismay of the country's creditors. It is reported that, following the adjustment, the "losers" will be the owners of properties with current zone rates ranging from 750 to 1,500 euros per square meter. In those areas, ENFIA will rise between 3.5 and 21.6 percent and, in a handful of cases, the increase will amount to 62 percent from last year. Sources say that the Finance Ministry committee is comparing the recommendations of surveyors with data from the Bank of Greece and the Property Transfer Register to establish whether there are any major differences. As committee members admit, they have "given up" on some 1,500-2,000 zones and have forwarded the data to the ministry's second-level committee for it to make the definitive decisions. The same sources add that before the new objective values are published, there will be some virtual ENFIA calculations to ensure the amount demanded reaches the target of 3.2 billion euros – the amount property owners are asked to pay every year – with an average of 2.65 billion eventually being collected.

In the USA, property tax collection is a critical source of revenue for local governments, accounting for 72 percent of local tax collections nationwide in 2015 (most recent data available). Local property taxes are largely used to fund police departments, emergency services, road maintenance, and other services mainly associated with property ownership or residency. While states used to rely heavily on property taxes as a source of revenue, this reliance has declined over time. In 2015, state-levied property taxes accounted for only 1.7 percent of state tax collections nationwide, down from 52.6 percent in 1902. Even with decreasing dependence among states, the extent to which localities rely on property taxes resulted in property taxes comprising 31.1 percent of all U.S. state and local tax collections in fiscal year (FY) 2015. As such, property taxes are the largest source of combined state and local tax collections, trailed by general sales taxes (23.5 percent), individual income taxes (23.5 percent), corporate income taxes (3.7 percent), and other sources (18.2 percent). Property tax rates are set by a variety of taxing authorities, including states, counties, cities, school boards, fire departments, and utility commissions. Some tax jurisdictions levy property taxes by imposing a rate or a millage (the amount of tax per thousand dollars of property value) on the fair market value (FMV) of the property. Other jurisdictions impose property taxes on the assessed value of the property, which is typically calculated as a percentage of FMV.

On average, state and local governments collect $1,518 per capita in property taxes, but collections vary widely by state, and several regional trends exist. Property taxes are highest in the Northeast, and each of the New England states is among the 10 states with the highest per capita property taxes. Overall, the District of Columbia comes in first ($3,350), followed by New Jersey ($3,074), New Hampshire ($3,054), and Connecticut ($2,847). Property taxes tend to be highest in urban areas with heavy concentrations of high-income earners. Among the 10 states with the lowest per capita property taxes, a majority are in the South, where sales taxes are a more prominent source of state revenue. Texas is a notable outlier, relying heavily on property taxes while not levying state individual or corporate income taxes. The nation's lowest per capita property tax collections are in Arkansas ($699), Oklahoma ($678), and Alabama ($540).

In Ontario, Canada new provincial legislation has been introduced that will have the effect of protecting certain types of building from redevelopment pressures in high demand areas in cities where recent property tax assessments have meant steep increases in taxes. The issue arises from the fact that Ontario assesses property values on the "highest and best use" of a site (i.e. market value), not on what's actually built on a site. The new regulation would allow for a new property tax subclass aimed at giving properties such as arts and culture hubs a tax break of 50 percent. The Province will "provide a corresponding reduction to the education portion of the property tax." A commentator said, "this is already done in New York and other progressive cities" and he added "that this is only the first step in reforming a flawed provincial property tax assessment system." This takes us back to some of the issues we discussed at the Ontario Property Tax Summit mentioned earlier in this newsletter.

The Irish Finance Department has launched a public consultation on the Local Property Tax (LPT), as part of a broader review of the tax. The review was launched in January. The aim is to provide the Finance Minister with information on any possible measures he might recommend to the Government regarding the revenue yield from the LPT and the LPT's contribution to the total tax take. The purpose of the consultation process is to provide stakeholders and interested parties with an opportunity to submit their suggestions to the review process. The LPT review group will consider the submissions received in the context of their deliberations and will then report any recommendations to the Minister.

And finally, I know that many regular readers were intrigued by the "goose poop" story I mentioned in a previous newsletter. This involved a billionaire in the USA who complained that geese were ruining the enjoyment of his lakeside property by covering his lawns with their "poop". You may be interested to learn that he recently carried an oversized stuffed goose into an Upstate New York town hall and plopped it on a table in front of the Board of Assessment Review. He asked them to cut the assessed value of his property in half, which would cut his property taxes in an amount equal to the salary he would have to pay someone - and his dogs - to live in the house year-round and chase the geese away. That would cost about $75,000, by his estimate. He apparently "wore out his welcome" rather quickly when he started ranting about the unfairness of property taxes, so he apparently pushed the goose across the table and walked out. I suspect he and his appeal may well end up being as stuffed as his goose!

Paul Sanderson

President, International Property Tax Institute