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# PRESIDENT'S MESSAGE

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May 2018

There have been a number of occasions in recent years where IPTI has been undertaking international research in relation to property tax systems around the world. Each time we look at Germany, I am surprised that the tax base which supports the annual property tax system there is so out of date. I am also surprised that the burden of property taxes in Germany is so much lower than in many other developed countries. These two factors may well be related.

Looking initially at the burden of tax, the latest data (2016) published by the OECD shows that property taxes as a percentage of GDP in Germany amounted to 1.06%. This compares with 2.66% for the US, 3.78% for Canada, 4.10% for France and 4.19% for the UK. Looking at property taxes as a percentage of taxation in Germany, the data OECD shows it to be 2.83%. This compares with 9.05% for France, 10.23% for the US, 11.95% for Canada and 12.63% for the UK. It will be seen that, in comparison with the highest burden of property tax in the world (i.e. the UK), Germany's property taxes are around 25% of that level.

Moving on to consider the nature of the tax base in Germany, the property values that underlie the system are way out of date. In what used to be West Germany, the values date back to 1964. In what used to be East Germany, the values go back to 1935! This situation came before the Federal Constitutional Court in Germany which recently declared the property tax system to be "unconstitutional" and ruled that it must be updated as soon as possible.

Looking at the court's decision in a bit more detail, it stated that the provisions of the Valuation Act (*Bewertungsgesetz*) regarding the standard rateable valuation (*Einheitsbewertung*) of property in the former West Germany are incompatible with the general guarantee of the right to equality. With regard to the valuation of property, the court stated that the legislature continues to draw on the general assessment date (*Hauptfeststellungszeitpunkt*) of 1964. This results in serious and extensive unequal treatment, which is not sufficiently justified. Based on these reasons, the First Senate of the Federal Constitutional Court has declared the provisions unconstitutional and ordered that the legislature must enact new provisions by 31 December 2019. Until that date, the court ruled that the existing unconstitutional provisions may continue to be applied. After the new provisions have been promulgated, the court said that the old provisions may be applied for another five years from the date of promulgation, but not after 31 December 2024.

The court went on to say that, for reasons inherent in the system, suspending a new general assessment of standard rateable values over a long period of time results in substantial unequal treatment due to

unequal valuation results. As the values are based on those of 1 January 1964, the distorted values resulting from the overly long general assessment period are reflected in the individual valuation elements of both the rental value method (*Ertragswertverfahren*) and the capital value method (*Sachwertverfahren*).

The longer a general assessment period extends beyond the six years originally provided for, the bigger the individual and the more extensive the overall divergence between the actual market value of land and its standard rateable value at the time of the general assessment.

Interestingly, the court stated that a divergence between current market value and the standard rateable value assessed is not in itself objectionable under constitutional law. If standard rateable values lagged behind the rising market values evenly in all cases, it would not in itself result in unequal treatment relevant under constitutional law, since the level of standard rateable values in relation to each other, as compared to the current market value, would remain the same. However, there are no indications to suggest that the increasingly distorted values that necessarily result from dispensing with regular general assessments evenly reflect the development of current market values.

It will be interesting to see how the German government responds to the decision of the court and what system it puts in place to address the problems highlighted. Of course, it does not follow that carrying out a nationwide revaluation to provide up to date market property values will lead to an increased burden of property tax. Indeed, the German Finance Minister has already stated that the government would soon meet state authorities and local communities to hammer out a new formula that also “ensures there are no tax increases for real estate owners, for tenants, for all those involved”. This presumably reflects the usual political concerns about the “turbulence” that can be caused by revaluations and the unpopular nature of property taxes.

Moving on to IPTI activities, we ran a couple of workshops during April. The first was delivered jointly with the Institute of Municipal Assessors (IMA) and was held in Mississauga, Ontario. The title of the workshop was 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, and this workshop provided attendees with a better understanding of HABU and the principles to be applied in the valuation of land for property tax purposes. Consideration was given to both single property and mass appraisal valuation processes and practice. Valuation and legal perspectives were covered by the distinguished panel of experts who also discussed jurisprudence and recent court/tribunal decisions.

The second workshop was one developed by IPTI’s Corporate Advisory Committee (CAC) and titled “Managing Property Tax Portfolios - Multi-Jurisdictional and Global Challenges”. This workshop was held in Chicago and was for those responsible for managing corporate property tax liabilities. Managing multi-property portfolios situated in various jurisdictions - including states, provinces and countries - create many challenges for corporate managers. Complexities include dealing with multiple sources of information, lack of standardization and consistency, access to data and information, communications and generating reports for management purposes. As well as being impacted by the fact that the property

tax burden is ever-increasing, additional challenges are created by the lack of understanding of the tax assessment cycle in local counties or jurisdictions and how local assessors deploy appraisal methods. The workshop looked at these issues along with further challenges including a lack of knowledge as to how to navigate jurisdictional laws to ensure compliance and identifying, quantifying and pursuing all opportunities for tax reduction and the inability to easily analyze property assessments, based on market research, to determine whether they are fairly assessed and to provide concise and clear reporting in sufficient detail to allow informed decisions.

Also during April, we delivered two more webinars in the series we provide in partnership with the IMA. The first of these was on the topic of the “Role of the Assessor and Expert in Mediations and the Negotiation Process”. I was one of the two presenters for this webinar and my co-presenter was a very experienced lawyer. Between us, we considered 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.

The second IMA-IPTI webinar we held in April was on the topic of the “Valuation of Special Purpose and Unique Properties”. This webinar provided those participating with an understanding of the methodologies used for valuing these properties for assessment purposes. The presentation included reference to the “special purpose litmus test” and focussed 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.

Looking ahead, in May we will be holding another Ontario Property Tax Summit. IPTI facilitated the first Ontario Property Tax Summit in 2012 with follow up Summits in 2013 and 2016. At the conclusion of each Summit, IPTI released a Summary Report. The 2018 Ontario Property Tax Summit will explore the changes, improvements and progress made since our previous Summit, focusing on current challenges and issues, many of which are common to most property tax systems. This will include consideration of transparency, simplicity, fairness, communication, exemptions, revaluations, taxation and appeals.

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 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](http://www.ipti.org).

I am pleased to report that a book published by IPTI - “Improving Mass Appraisal Valuation Models Using Spatio-Temporal Methods” written by Richard A. Borst, PhD - has now been translated into Korean and is available for purchase through our colleagues in South Korea.

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

In Finland, it is reported that municipal tax on leisure property has tripled since 2000. Summer cottage owners in Finland's most popular holiday areas now pay up to 800 euros annually in real estate tax to the municipality that hosts them, as rates continue to rise dramatically. Finland's real estate tax on leisure properties varies widely, depending on the municipality in question. The average rate paid for Finland's 500,000 summer cottages has grown three-fold since 2000, as many municipalities grapple with economic difficulties. The arrival of bills with the annual real estate tax payment due may be an unwelcome surprise for many cottage owners this year, as the sums can be as high as 836 euros in the capital region city of Espoo, 610 euros in the popular south coast cottage community of Raseborg, and 520 euros in the metropolitan suburb of Porvoo. In the popular cottage location of Savonlinna, in the heart of picturesque Lake Finland, leisure property taxes rose 39 percent since 2014, and farther north in Jyväskylä the increase was 25 percent in that same four-year period.

In Greece, it seems that creditors have blocked the government’s plans to increase the tax on owners of medium-sized and large property. According to sources, the government had intended to shift the new burden resulting from the adjustment of the taxable property rates to 500,000 owners with assets adding up to over 200,000 euros. The government had been planning to modify the supplementary Single Property Tax (ENFIA), either by reducing the tax-free threshold or the tax rates, in order to avoid hikes to the main ENFIA tax in areas such as Perama, Keratsini and Drapetsona, among others, and so they wouldn’t have to send increased tax notices to small property owners. The country’s creditors have responded to this idea saying that ENFIA is not supposed to be used for social policies, thereby stopping the government in its tracks, sending it back to the drawing board instead. The Finance Ministry is now considering two alternative scenarios. The first provides for the existing objective values to be maintained for the calculation of the 2018 ENFIA and for the adjusted values to start applying as of May or June (for property transactions, parental concessions, etc.). The database of Public Power Corporation (PPC) will also have to be updated, with the government forwarding to the electricity utility the new values that are required for the calculation of the Property Levy (TAP) that is included in the power bills and which goes to local authorities. If the local authorities wish to retain the TAP they charge citizens at the same level, they will need to lower their rates. The other scenario being considered provides for “surgical” interventions to all ENFIA rates and brackets, or the objective values. For instance, ENFIA’s second price bracket contained properties in a price zone between 501 and 750 euros per square meter. If a zone has a 550 euros/sq.m. objective value rate and the proposal is for a hike to 800 euros/sq.m., the government could decide to take the zone rate to 750 euros/sq.m. instead, so that the zone remains in the same bracket and the rate is unchanged – although that may not be feasible for all brackets.

In Thailand, golf courses, zoos and airports are among business operators which could enjoy tax alleviation measures under a proposed land and buildings tax bill planned for next year, the Finance Ministry says. The Deputy Finance Minister said the subcommittee earlier planned to wrap up its vetting by the end of this year, but it asked to extend its deliberations. He noted the delay will not derail a plan for the legislation to be put into force early next year. The contents of the bill have been agreed upon by the subcommittee's members, but consideration is now turning to certain measures which should alleviate the impact of the legislation, including an exemption on tax collection from certain buildings and other structures. Those who sought help from authorities for tax alleviation measures include golf course operators, he said. As golf is one of the sports which draws fame to the country, the subcommittee believes fairways could be entitled to tax alleviation measures, he said. However, golf course clubhouses should be levied since they involve normal business operations, he said. If no alleviation measures are introduced, the golf course operators would be affected by the legislation as each site uses approximately 400-500 rai of land. As for zoos, they are recreational sites for people and they should be liable for alleviation measures, the deputy finance minister noted. Alleviation measures could also be applied to airports' surrounding areas, which are off-limits for safety reasons since the space is not set aside for commercial purposes; railway areas might also be entitled to the tax alleviation measures.

In Nepal, the government has issued the Integrated Property Tax Management Procedure, 2018 for the purpose of making local levels capable of mobilising local resources. The procedure also aims to enable the 753 local levels to exercise the powers conferred on them by the constitution and other existing laws with regard to the collection and management of tax. Schedule 8 of the constitution and section 55 of the Local Government Operation Act have empowered the municipalities and rural municipalities to levy and collect integrated property tax in the areas falling under their domain. "Therefore, this procedure provides for necessary provisions to make the integrated property tax management process clear, transparent and systematic," it reads. This procedure shall come into force on such date as the executive of the concerned local level approve and publish it in the Local Gazette. The rate of integrated property tax shall be effective from the first day of each fiscal. "The local levels may levy and impose the tax on the basis of classification and valuation of land in their respective areas. A five-member valuation committee consisting of experts shall be formed to make valuation of the land on which tax is imposed," the procedure says. Integrated property tax is levied on net taxable value of all property (land and buildings combined) of a taxpayer.

In Canada, Ontario property taxpayers have been promised more and easier input into the next province-wide reassessment. The recently released Ontario budget announced that the base date for pegging property values will be moved one year forward, to January 1, 2019, to give the assessing agency, the Municipal Property Assessment Corporation (MPAC), more time to consult and potentially adjust valuations before a new four-year assessment cycle begins in 2021. This advance disclosure framework was actually introduced during MPAC's previous provincial valuation exercise in 2016, but, generally, only fairly large commercial and multi-residential landlords got the opportunity to see and dispute the numbers before finalized property assessment notices were mailed out. An earlier start is meant to support what the budget calls a "meaningful and open exchange of information among MPAC, property owners and municipalities". As part of that, MPAC is also reviewing how it gathers data about building revenue and operating costs, which underpins commercial and multi-residential valuations.

Vietnam is considering imposing a new tax on people who own property worth VND700 million (\$30,700) or more. The 0.4 percent tax has been proposed by the Ministry of Finance, which claims it will bring in VND31 trillion (\$1.3 billion) per year and help Vietnam “get in line with regulations on property tax rates in other countries.” However, experts have expressed their concerns about the idea. “The new tax will be a burden on property owners, who already have to pay land use tax from 10 to 50 percent of their property's value”, said the chairman of the HCMC Real Estate Association. In Ho Chi Minh City alone, 95 percent of properties are worth VND700 million or more, so the majority of homeowners will be hit by the tax, said the CEO of Viet An Hoa Real Estate Investment JSC. “When unexpected moves like this hit the market, negative reactions can occur. However, it is still too early to predict the future,” he said. He added that in the long-term, it could create potential risks for real estate investors. “Many Vietnamese people buy properties to lease them out, but if the law is approved, people will have to think hard before they buy due to the new tax”, said the CEO of GP Invest. The ministry is also seeking to increase land tax. Under the same draft law, land taxes in some categories might rise by multiple times compared with those currently stated in the Law on Non-Agricultural Land Use Taxes.

Poland has announced amendments to the minimum tax on commercial property, which are designed to align the measure with European Union state aid rules and reduce opportunities for tax avoidance. Introduced on January 1, 2018, the minimum tax applies to income from ownership of certain high-value fixed assets at a rate of 0.035 percent per month of the initial value of the asset that exceeds PLN10m (USD2.95m). Under amendments to the corporate and personal income tax laws announced by the Ministry of Finance earlier this month, the tax will apply only to parts of a property that are subject to a lease or tenancy agreement, with vacant parts of properties to be removed from the scope of the tax. However, the base of the minimum tax will be widened to include all buildings with the exception of those included in the Government's social housing program. An additional change will mean that the PLN10m threshold would apply singly to the value of a property owner's portfolio, rather than on a per-building basis. The amendment also includes measures allowing taxpayers to claim refunds for overpaid minimum tax, provided that the tax authority agrees with the owner's valuations.

And finally, the government of Uzbekistan has warned its citizens to use their kitchen gardens “efficiently” or face a triple land tax. According to a local news website, officials will monitor every household twice a year to “study the public's interest in farming, building a greenhouse, and keeping livestock or chickens.” If monitoring carried out by police chiefs, tax inspectors and local prosecutors find that a household has failed “to use the land efficiently” by not growing crops or keeping farm animals, land tax will be tripled, the report says. The Uzbek President is quoted as saying, “I am sorry to say this, but people have stopped doing hard work.” It seems that every weekend, together with his children, he cleans the chicken shed. “Even if you are a president, it does not mean that you are different. You have to work every day!” he said. He apparently owns 110 chickens and sends the eggs to his home village in exchange for meat and yoghurt, the website reports. It will be interesting to see if this idea catches on around the world!

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