PRESIDENT'S MESSAGE

July 2018

I read an interesting article recently entitled "From Head Taxes to Parcel Taxes, Cities and States are Looking for New Ways to Raise Revenue". Although it was in an American publication, many of the points it raised are of wider application. It referred to the rise of "unconventional" state and local taxes. It stated that, in addition to income, sales, and property taxes, there has been a growing interest in head taxes, parcel taxes, sugar taxes, marijuana taxes, developer taxes, tourist taxes, and sports betting taxes.

It stated that these taxes seem to have four things in common: they often tax people only indirectly; they tax only a narrow slice of a local economy; they supplement broad-based taxes that nearly everyone pay and most voters seem to hate; and some of these levies impose a greater burden on low-income residents than on middle- or upper-income households.

It went on to say that these taxes are not new by any means. The modern trend probably began with the rise of instant lotteries in the 1970s. Those now-ubiquitous government-run betting pools that brought in more than $80 billion in 2016 are effectively a tax on (mostly) low-income households. The lotteries were followed quickly by a burst of legalized - and taxed - casino gambling starting in the late 1970s. Hotel "bed taxes" first become popular about the same time.

But, it stated, recent years have seen an explosion of other taxes. They represent only a small fraction of total state and local revenue, but the growing interest on the part of government officials seems clear. In terms of the "head tax", the idea of a flat per-person tax goes back to the Book of Exodus, but the modern version targets only labor in large firms. Denver has one. Chicago had one but repealed it. Pittsburgh taxes total employee compensation. Seattle had a head tax from 2006-2009, repealed it, adopted another one a month ago, then repealed it that version this month in the face of strong opposition from Amazon and other employers. At least two California cities, Mountain View and Cupertino, are considering such a levy.

States have taxed pot since California legalized medical marijuana in 1996, but the real revenue started flowing in 2012 when Colorado and Washington fully legalized marijuana and created excise taxes on it. Now, 30 states have legalized - and taxed - marijuana. Since 2016, a dozen states have implemented taxed sales of marijuana. Last year alone, Colorado collected $250 million in taxes and fees on weed.

In terms of gambling taxes, when the US Supreme Court greenlighted the ability of states to legalize - and tax - sports betting last month, states saw a new cash cow. New Jersey has now opened its casino-based sports books. However, the article says the business may not be the revenue jackpot officials predict.

In relation to parcel taxes, the article states that, unlike traditional property taxes that are based on assessed value, a parcel tax is a flat tax on every landowner. It is sometimes linked to the property's size or its improvements. Since California enacted its notorious property tax limit (Prop 13) a half-century ago, local government have been attracted to the tax as a way to pay for public schools. However, in recent months the levy has enjoyed a burst of interest. Just this month, San Francisco and Manhattan Beach adopted parcel taxes. Fresno will soon consider one.

The article went on to ask why these taxes are so popular and referred to the following possible reasons:

(a) Legal constraints on traditional taxes. California has capped property taxes so cities and counties had little choice but to turn to alternatives such as parcel taxes. Colorado capped most traditional taxes so it legalized and taxed marijuana sales. Seattle is prohibited by the State of Washington from enacting an income tax so it (briefly) turned to its head tax. Faced with these constraints, governments go where they can for revenue.

(b) Governments are "maxing out" on traditional taxes. There are many reasons. As the economy becomes more service-oriented, the sales tax base that is built largely on manufactured goods is shrinking. States have lost tax revenue as more goods are purchased online, where states are limited in their ability to require retailers to collect sales taxes.

(c) At the same time, states have been raising sales tax rates and cutting income taxes. The former makes it tougher for local governments to raise their own sales taxes. In Seattle, for example, consumers are paying a combined sales tax rate of 10.1 percent. It is hard to squeeze much more from a relatively narrow tax base.

(d) Tourist taxes on consumers in restaurants, hotels, and - increasingly - short-term web-based rentals, frequently hit non-residents. And they rarely vote where they visit. Gambling and cigarette taxes fall on a relatively narrow share of the population.

(e) Alternative taxes are less salient. State and local governments are increasingly fond of indirect taxes which people can't "see". For example, Philadelphia is considering a new tax on real estate developers. That levy surely will be passed on to commercial or residential tenants, or to buyers. But it will be buried in the price, and invisible to most voters. It was the same with the head tax. A small per-employee tax eventually will be passed on to workers, perhaps in the form of lower pay or fewer job opportunities. But it will be largely invisible.

The article concludes that cities and states need revenue to pay for services their residents want. But if voters won't support traditional income, property, or sales taxes, don't be surprised when elected officials find new taxes to pay the bills.

The article provides interesting food for thought and it is important for policy-makers, particularly those responsible for property taxes, to be reminded of the "limitations" of existing sources of revenue.

So, a quick look back at what IPTI has been up to during June. The main event was our annual Mass Appraisal Valuation Symposium (MAVS) which was held in Halifax, Nova Scotia on 5th and 6th June. The MAVS was held in cooperation with the Property Valuation Services Corporation (PVSC), Nova Scotia, and we were very grateful for the support that PVSC provided. We were also very pleased that we had so many sponsors who kindly provided their support for the event.

There were so many interesting and varied presentations at the MAVS it would be unfair to single out any of them for special mention. Suffice it to say that we had a number of speakers talking about property tax policy issues, others who spoke about the latest developments in property valuation, speakers who talked about property taxes in different countries around the globe, and others who referred to the latest innovations in technology, including imagery and mapping.

We were pleased with the very positive responses we received in respect of the MAVS. A few extracts from the feedback included the following comments: "It was excellent material and well presented"; "Thank you very much; well organized, good topics, very useful"; "Very informative. It was refreshing to see so many speakers and participants with a passion for this work"; "Congrats to the speakers for bringing energy and innovation to a field that sometimes seems stagnant". Thanks for these responses.

Whilst we were in Halifax, we held a pre-MAVS workshop entitled "Addressing Challenges in Property Taxation" which, like the MAVS, was well-attended. I was one of four speakers at the workshop and, between us, we covered a range of topics including "The Role of the Property Tax in Local Government", "The Importance of Independent Tax and Assessment Policy", "Tax Policy Options" and "How to Reform the Property Tax - Challenges and Opportunities".

We held a meeting of IPTI's Board of Advisors between the workshop and the MAVS. In addition to discussion of Board items, Kathy Gillis, CEO of PVSC, and Meredith Buchanan, also from PVSC, gave the Board a presentation about the work of the PVSC and its plans for future development.

Also in June, we held another in the series of professional webinars we run in partnership with the Institute of Municipal Assessors (IMA). This webinar was on the subject of the "Role of the Advocate in Assessment Appeals" and, among other issues, covered 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.

Towards the end of June, I was pleased to speak at the inaugural IVSC-WAVO conference which was held in Singapore. The International Valuation Standards Council (IVSC) and the World Association of Valuation Organisations (WAVO) conference was entitled "Valuation in the Globalised World" and included a number of varied and interesting papers. I was speaking on the topic of "Valuation for Property Tax" and provided a global update along with a consideration of the extent to which valuations for property tax are subject to International Valuation Standards.

Looking ahead, 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 shortly be available, but it promises to be a very interesting and enjoyable event.

I am pleased to announce that our 2019 MAVS will be held in Slovenia. Following the success of our recent MAVS, I am sure that the 2019 event will be very popular. More details will be available in due course.

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 the USA, a new commission has been announced by the Mayor of New York to reform property taxes. The advisory commission will develop recommendations to make property taxes "simpler, clearer and fairer" in the city, according to the announcement. The group will hold at least 10 public meetings, seeking input on issues including the methods used to calculate tax rates and those used for determining property values. "This is an important first step towards addressing inequities in this city's broken property tax system," the commission co-chair said in a statement. "It is crucial that we work to bring clarity and fairness to this process, which has long perplexed the public and left many feeling hoodwinked by the city government tasked with representing them." However, it is noted that the announcement comes more than four years after a similar commission was set up to study the issue. That group failed to gain traction and it is reported that the last time a government-appointed commission conducted an "in-depth review" of property taxes was in 1993. Even with a commission packed with experts, changing how homeowners are taxed will be an uphill battle. The Mayor indicated earlier this year that reform would likely take a few years and would require legislation at both the state and city level. State law requires that the city base property assessments on sales of comparable properties and caps increases on assessments at 6 percent.

In Canada, a recent report says supply, not taxes, is the key to ease Vancouver's housing crisis. It states that tax-based policies intended to ease British Columbia's housing crisis will generate significant new revenue for the provincial government while having little effect on home prices. The report says B.C. should instead address regulatory barriers to creating more housing supply. The report author said the government's own projections suggest increases in the property-transfer and foreign-buyers taxes, and the new taxes on vacant and expensive homes, will not reduce housing prices. "If you look at the foreign-buyers tax, which has been raised to 20 per cent [from 5 per cent], if that policy was expected to be effective, the assumption is that [government] would have reduced their revenue over the next three years," the author said of the projections. "Instead, it grows by 21 per cent [by 2021]." The property-transfer tax, which has been increased to 5 per cent on homes that cost more than $3-million, is projected to generate $81-million each year from 2018 to 2021. The taxes on empty homes and homes assessed at more than $3-million, meanwhile, are expected to bring in about $200-million each annually.

Australia stands to gain $24.3 billion every year in GDP from 2047 if state governments phased out stamp duty replacing it with a broad-based land tax, a new report has found. Currently in all states and territories, homeowners must pay stamp duty when they buy a home. The transaction tax, paid in a lump sum, is charged at varying percentages depending on the jurisdiction. If a broad-based land tax was introduced, homeowners would be charged an annual levy, costing someone in Sydney or Melbourne between $1500 to $2000 a year on a median-priced house, according to Grattan Institute research in 2016. Infrastructure Australia's "Making Reform Happen" paper made the case for major reforms to better deliver infrastructure, including land use, to prepare for the "profound change" Australia will face as the population is projected to grow to more than 30 million people by 2031. Despite total stamp duty revenues having almost doubled in the past four years, reaching $20.6 billion by the end of the 2015 financial year, it's deemed inefficient and unreliable as it relies on property turnover and high prices. In 2012, the Australian Capital Territory (ACT) began to phase out the residential property transaction tax over a 20-year period. The report states the long-term reform process of the ACT reduced the "volatility of government revenues by moving from duties to a more reliable and stable land tax revenue stream." The greatest impediment, however, was convincing Australians as homeowners were more averse to the idea of a recurrent yearly tax, albeit small, compared to the lump sum of stamp duty.

In Pakistan, it is reported that the collection of property tax by provinces registered a 20 per cent fall, touching Rs4.81 billion in the first ten months (July-April) of the outgoing financial year 2017-18. The fall in property tax collection was attributed to the previous governments' decision to take back the revised-up valuation tables for real estate in the final months of its tenure. Data from the finance ministry revealed provincial property tax collection in the same period of last financial year was recorded at Rs6.01 billion. Punjab's property tax collection fell 31.62 percent, to touch Rs2.66 billion in first ten months of FY18, compared to Rs3.88 billion in the same period of FY17. Sindh's property tax collection exhibited a fall of 3.85 percent, touching Rs1.45 billion. Values of the Federal Board of Revenue for properties were applied in more than twenty cities. The federal government's valuation contributed to a rise in provincial tax collection because of the higher declaration by buyers and sellers. Previously, three different property rates existed, one for DC rate collection, one for withholding tax and the market price was much above the two. The implementation of these valuation tables by the Federal Board of Revenue (FBR) was to enable documentation of the economy and dissuade misreporting in the realty sector. The former finance minister and all stakeholders had reached an agreement on the fresh values to bring them closer to market valuations. However, the property valuation tables were scrapped in the budget for FY19 and expiration of withholding tax collection starting July 1st, 2018. For FY19, the previous government enforced one percent income tax on the fair market value of property and onwards. An announcement was also made to setup a directorate for evaluation of property transactions at fair market values and properties would be taken over if their values were understated.

Vietnam's proposed property tax should be accompanied by accountability in the use of funds collected, World Bank (WB) officials have said. The draft law proposed by the Ministry of Finance in April will have owners of an apartment, house or land worth VND700 million ($30,500) or more to pay an annual property tax of 0.4 percent of the amount over VND700 million. 1.8 million Vietnamese households will be affected by the tax, accounting for 7.2 percent of total number of households in Vietnam, WB staff said. Even though only 23,000 of those families are poor, they will have to pay a tax rate of 0.83 percent, higher than the rich who only need to pay 0.58 percent, they added. They also estimated the money collected from the poor at just VND17 billion compared to the VND2,000 billion from the rich. The WB said that property tax was not only an income for the country, but also a tool to elevate fairness, efficiency and accountability in local governments, which would contribute to further development of the real estate market. Vietnam has room to take its property tax further, the WB said, explaining that it now accounts for just 0.04 percent of the country's GPD, while this number in transition economies and other developing countries are 0.5 and 2 percent respectively. The property tax bill will continue to be discussed and will not take effect until 2020 the chief of the Tax Policy Department under the General Department of Taxation, said at a conference last month.

In South Korea the government has announced it would take steps to raise property taxes. The Fiscal Reform Special Commission under the Presidential Commission on Policy Planning said that it will hold a policy debate over real estate taxation reform. The debate will focus on studies on the impact of higher property taxes, particularly comprehensive taxes on multiple and high-value properties, with the goal of finding an appropriate taxation level. The commission will give its final proposal to the government shortly. The government will use it to come up with its property tax reform bill which the administration hopes will be passed by the National Assembly in September and go into effect next year. Increasing property taxes has been one of the government's key goals since taking office in May of last year. Not all property owners are subject to the comprehensive tax. It only applies to owners of multiple properties whose combined government-assessed value exceeds 600 million won ($543,000) and owners of single properties worth over 900 million won. Under the currently law, the taxable value of a property is 80 percent of its government-assessed value. However, market watchers believe the government will raise that ratio to 100 percent. Experts agree that for the government to keep the campaign promise of raising property taxes until they are equivalent to 1 percent of the nation's GDP, it would need to raise them by 3.2 trillion won. To achieve that goal, it has to raise the ratio from 80 percent to 100 percent. If the government changes its property value calculation to 70 percent of actual market value from 60 percent, it will collect an additional 2.7 trillion won.

And finally, by way of a footnote to a previous story, the US billionaire taxpayer who complained about the impact of "goose poop" on the front lawn property of his luxurious lakeside property in upstate New York lost his property tax valuation appeal. The South Bristol Assessment Review Board dismissed his case and he has confirmed that he will not be lodging an appeal against the Board's decision. Perhaps this was a case of the Board saying "S**t happens; get over it!".

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