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# PRESIDENT'S MESSAGE

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Many readers of this newsletter have been in touch with me in connection with an article that recently appeared in "The Economist". In the August 11th - 17th edition of the publication, the leader stated that "countries must overhaul their tax systems to make them fit for the 21st century". It went on to advocate the introduction of a land value tax as a "radical approach", but one which it described as being "the most efficient of all property taxes and one with a liberal heritage".

In the "Briefing" section of the publication, more careful consideration is given to the history of land value taxation, including reference to Henry George and his well-known book "Poverty and Progress" published in the 1890's. The usual arguments in favour of land value tax are rehearsed in the article, i.e. fairness and efficiency. It also references Milton Friedman's famous declaration that a tax on the unimproved value of land was "the least bad tax".

The "Briefing" goes on to state that one of the reasons why land value taxes have only been implemented in a "handful of places" is that they are hard to implement. Back in April this year I was interviewed by the journalist who was preparing the article for "The Economist" and we had a long and interesting discussion about the pros and cons of land value taxes. He notes in the "Briefing" section, "Land is difficult to value. Its price is not recognised directly when (developed) property is sold. It must be estimated by subtracting the value of the buildings from the sale price. Such a calculation is inevitably controversial, argues Paul Sanderson of the International Property Tax Institute. People would complain about a tax levied on a hypothetical number. Where possible, they would mount legal challenges against it."

As I explained to the journalist, in my view, land value taxes have a great deal going for them in terms of theory and economic justification, but there are a number of practical difficulties associated with them, not least of which is the limited amount of direct, reliable open market evidence of land value, particularly in large, densely-developed cities where sales or lettings of undeveloped land are almost non-existent.

In fairness, the article goes on to give an opposing view from an academic in New Zealand who suggests that valuing land is not a difficult task and points out that land values are a feature of the property tax systems in both Australia and New Zealand. Clearly, that is factually correct, but the tax rates applied in those countries are relatively low in comparison to, for example, the United Kingdom, France or the USA. In my view, the higher the tax rate, the more likely there is to be a challenge to the tax base, and that is where the issue of sufficiency of evidence to support land values arises.

The article in "The Economist" goes on to consider other aspects of land value taxation, including its implementation in Denmark. It also refers to Winston Churchill's famous quote in favour of land value taxation, "Roads are made, streets are made, services are improved, electric light turns night into day, water is brought from reservoirs a hundred miles off in the mountains and all the while the landlord sits still". This argument emphasises the potential for landowners to benefit at the taxpayer's expense and is increasingly being used as the justification for taxing these "unearned" increases in value as a means of funding infrastructure and other projects.

Interestingly, a number of prominent politicians in the UK have recently come out in favour of introducing land value taxes either to replace existing recurrent property tax systems, or to reduce the burden of current systems. I don't know whether "The Economist" article has prompted these views, but it has certainly "refreshed" discussion of land value taxation.

Moving on, I am pleased to report that, in August, I survived a complete circumnavigation of the globe. This involved a 26,500 mile trip from London to New Zealand - via Singapore and Sydney - and then on to Texas before returning to London. I was in New Zealand at the invitation of the Australasian Valuers-General who were holding their annual conference in Christchurch. The city is still recovering from two devastating earthquakes in 2010 and 2011 and we were taken on a technical tour of the major redevelopment sites. The conference was interesting and informative and I hope I was able to make a useful contribution through providing an update on various aspects of property tax policy and practice in many countries around the world.

From New Zealand I flew to Dallas, Texas where the Council on State Taxation (COST) was holding its annual property tax workshop in cooperation with IPTI. This 2½ day workshop provides a great variety of topics of particular interest to large corporations and their professional advisors. I was involved in various elements of the workshop, but my main contribution was a round-up of the latest developments in property taxation around the world. Two topics that attracted a great deal of attention at the workshop were the treatment of "intangibles", i.e. how to exclude such matters as "brand" when valuing real property, and the approach that should be adopted for the valuation of "big box retail" properties. There was lots of lively debate on these and other topics proving that, yet again, property tax continues to be an important, and somewhat controversial, issue for taxpayers and other stakeholders.

Looking ahead, we have a number of professional events coming up over the next few months that are likely to prove attractive.

We are holding a series of events in partnership with the Institute of Municipal Assessors (IMA). In October there will be another in the IMA-IPTI series of webinars, this time on the topic of the "Derivation of Capitalization Rates". In November there will be a webinar on the topic of the "Valuation of Big Box Retail Properties".

We will also be delivering two IMA-IPTI workshops. In November, the workshop will be on the topic of "Conducting Appropriate Sales Investigations" and, in December, the workshop will be on the topic of "Separating Business Enterprise Value for Real Estate Assessment Valuations". Both these workshops will be held in Toronto and more details will shortly be available on the IPTI website.

In the first week of September I have been invited to speak at the WAVO-ANEVAR conference in Bucharest, Romania which is focussed on "Ethics in the Valuation Profession". This will be an interesting topic to explore, particularly in the context of property tax valuations.

IPTI's annual Caribbean conference, held in partnership with the Royal Institution of Chartered Surveyors (RICS), will be taking place in Montego Bay, Jamaica on 25th and 26th October 2018. Details of the agenda are available on our website and I am sure it will be a very interesting and enjoyable event.

Looking even further ahead, our 2019 Mass Appraisal Valuation Symposium (MAVS) will be held in Slovenia on 11th and 12th June 2019. A great deal of interest has already been expressed in participating in this conference and I am sure it will prove to be, yet another, "not to be missed" IPTI MAVS event.

Beyond that, we are planning to hold another conference in Australia later in 2019. This event will be held in Melbourne, Victoria during October 2019 and is going to be focussed on the needs of local government.

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).

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

Starting with the UK, I mentioned in my introduction that several politicians have recently referred to the possibility of replacing, or supplementing, existing property tax systems (council tax for residential properties; business rates for non-residential properties) with a land value tax to raise necessary finance, redistribute wealth and help to address problems in both the housing market and the retail sector. In connection with council tax, it has been pointed out that this system is now 25 years old, even though it was supposed to be a "quick-fix solution" to the problems created by the replacement of the previous system of residential property tax (domestic rates) with a poll tax (community charge). Council tax is highly regressive and there has been no revaluation since the tax was introduced. It is said that someone living in a home worth £100,000 in 2015-16 faces an effective tax rate five times as high as someone living in a million-pound property. Average income tax paid by the top 10% of earners is 45 times that of the bottom 10%, but average net council tax is only 2.7 times higher for the top 10% of properties than the bottom 10%. The second big problem with the council tax is that it is supposed to be one of the UK's main methods for taxing wealth, but has proved spectacularly bad at doing so. Rising house prices are a prime reason why wealth has grown 2.5 times faster than the economy since 1980, but wealth-related taxes have remained flat. Those lucky enough to have been owner-occupiers during Britain's regular surges in house prices have kept their windfall gains but home ownership, especially for young people, has been falling fast. A professor from Oxford University recently said that a crucial part of the reform package should be the scrapping of council tax and its replacement by a green land value tax designed both to be more progressive and to raise more revenue. He added that the new tax should consist of a standard per square metre charge on land, with regular revaluations. On top of that, there would be a surcharge on any buildings sitting on the land that would vary according to energy usage. An energy-neutral home would pay no surcharge. And several politicians have advocated the introduction of a land value tax on owners to replace the current business rates system which is paid by occupiers of non-residential properties.

In Canada, British Columbia's recently introduced Foreign Nationals' Property Tax faces a legal challenge for being ultra vires and discriminatory. A summary trial for what is likely to be a landmark case for Canada in residential real estate is currently underway. The lead plaintiff, who moved to Canada from China, purchased a property in BC in 2016. Between signing her agreement, putting down a deposit, and closing day, the BC government implemented their foreign buyers' tax which meant that the plaintiff had to pay an additional $83,850 for her home. The tax at the time was 15% of the fair market value of the property and has since risen to 20%. The plaintiff, and the class action, are challenging the tax on four grounds: (a) it is ultra vires the Provincial legislature; alternatively (b) the provisions are inapplicable to the class members; alternatively; (c) the tax is inoperative to foreign entities in which Canada has signed related treaties; alternatively (d) the tax infringes Section 15 of the Canadian Charter of Rights and Freedom, and therefore, of no force or effect. The class is seeking restitution of the amount collected by the BC government under the tax. Should they succeed, the BC government will be liable to pay back all amounts collected under the tax. On the plaintiff's side, a professor from the University of BC commented on the discriminatory aspects of the tax. He states that the tax has invoked xenophobia, racism and specifically sinophobia as Chinese immigrants have been the main focus of the tax. On the government's side, the director of The City Program at Simon Fraser University, notes that Chinese-Canadians largely supported the tax when it was implemented. He also draws attention to the fact that China has a variety of restrictions on foreign buyers. BC is not alone in having a foreign buyers' tax, it also exists in Ontario. In addition, provinces such as Prince Edward Island, Saskatchewan, Manitoba, and Quebec have some limits on foreign ownership rights. Dependent on the outcome, a lot of money may be owed by provincial governments across the country to foreign buyers. This will be an interesting case to follow.

In the USA, the "vexed" question of property tax exemptions continues to be considered. In a city in North Carolina, there is a proposal that churches and non-profits should pay for the services they receive from the city. As the amount of taxable land shrinks and the burden to pay for growing city services falls on residents and business owners, city leaders are looking for ways that churches and non-profits can help carry the load. In the city concerned, research shows that 639 pieces of land within the city limits add up to $404.5 million worth of property that cannot be taxed. If that land could be taxed, it could provide nearly $2 million in revenue for the city, based on the current rate of 49 cents per $100 of valuation. That's about one-quarter of what the city expects to bring in with property tax revenue this year ($8.5 million) from taxable properties. The council is looking into the amount of tax-exempt property within the city and entertaining the idea of a voluntary fee for non-profits and churches to help cover the services they receive from the city. The debate over property tax exemptions continues in many jurisdictions.

In Egypt, an advertising campaign for the Real Estate Taxation Authority (RTA) has called on citizens to start paying property taxes. Although the current law has been in force for nearly a decade now, it has undergone many amendments. According to the law issued in 2008, the rental value of properties is estimated once every five years. The annual tax value, which is calculated at 10 percent of the rental value of the property, is determined based on this procedure, excluding maintenance expenses. Not all real estates in Egypt are taxable. The law exempts private housing units with an annual rental value of more than EGP 24,000 per year (about $1,300), commercial and industrial units with an annual rental value of more than EGP12,000 and other facilities such as educational institutions and non-profit hospitals.

In Africa, the Rwanda Parliament has passed the law determining the sources of revenue and property of decentralized entities, commonly known as property tax. It replaces the old law enacted in 2011 which provided for the sources of revenues for decentralized entities including decentralized taxes, fees and charges levied on services rendered to citizens by local administration, transfers from central government, loans, interests from their business activities and other grants from donors. Currently, districts heavily rely on central government transfers which account for more than 90% of their finances. This limits their ability to cater for local priorities and develop. In the new law, the provision that required taxpayers to have a freehold land title to pay fixed asset tax has been removed. The provision eroded the taxable base as taxpayers paid land lease fees or fixed asset taxes according to their choice of title (leasehold vs freehold title). This meant that owners of properties with equal market value paid a different amount of tax depending on the land ownership regime as opposed to the value of their properties. Also, various studies conducted on taxation of property in Rwanda showed that the fixed asset tax rate of 0.1% was too low compared to other countries in the region and beyond. Studies further indicated that top urban land tax bracket was very low compared to the real market values. Under the new law, the tax rate for residential buildings will rise after exempting those used by owners as their residence, while land tax will be set by the district councils. The new law provides a standard plot size corresponding to each type of building to guide the land tax rate to pay. This tax will increase by 50% for each extra square meter beyond the set standard rate. Incentives will be given to the construction of high-rise residential apartments to promote organized settlement. The law will support urbanization policies in place by providing preferential tax rates on commercial buildings. It is hoped that the new property tax law will enhance local revenue mobilization through an increase of the local tax base and address tax administration weaknesses identified at the local level.

In South Korea, the burden of owning an apartment in an affluent neighborhood of Seoul is likely to go up significantly as the Land Minister recently warned that he would increase property taxes in order to curb rising home values in the capital. He said the government will reflect increased real estate values in next year's tax plan. The government-assessed value is used to calculate property taxes levied by the local government and the comprehensive real estate tax on owners of multiple homes and on apartments whose values exceed 900 million won. The government already announced tougher regulations last month targeted at what it considers to be an overheated real estate market, particularly in Seoul. In its last move, the government, starting next year, decided to tax 80 per cent of a property's assessed value and eventually raise it to 100 per cent. However, this move did not have a major impact on those who own a single apartment, as the comprehensive real estate tax mostly covers owners of multiple homes. But if the assessed value itself is raised, it will increase the tax burden on everyone who lives in a neighborhood that has seen a sharp increase in their property value. Currently, the government assessed value is estimated to be between 50 and 70 percent of the market value. As of 2016, there were 13 million people in Korea who owned one apartment. The Land Ministry this year already raised its appraisal value by an average of 10.2 per cent compared to the previous year. A recent announcement from the Seoul Metropolitan Government on major development projects in Yeouido, western Seoul, and Yongsan, central Seoul, are driving up real estate prices in those neighborhoods. According to the Korea Appraisal Board, housing prices in Seoul rose 3.47 per cent last month on average, the sharpest increase nationwide.

In Hong Kong, it is reported that developers are exploiting a loophole in the recently announced vacancy tax intended to increase housing supply. The tax would make completed homes that are left vacant for more than six months after receiving the occupation permit liable to a levy equivalent to about 5 per cent of the property value. The policy was announced to make available thousands of units of completed - but unsold - residential property from developers to add to the housing supply and ease price pressure in the world's most expensive residential property market. In response, it is said that some developers are leasing their projects to associates to remove them from the vacancy list. By "occupying" the properties in this way, the developer avoids having to pay the vacancy tax, estimated at between HK$50 million and HK$70 million, agents said. I am sure this loophole will be closed soon.

Returning to Canada, a local government (municipality) in Ontario is suing the provincial valuation agency over valuations relating to warehouses. The City of Cornwall is suing the Municipal Property Assessment Corporation (MPAC) claiming it was negligent when it overvalued three distribution warehouses, sending the municipality's budget into disarray. Cornwall is seeking damages to cover the refund to the taxpayers who obtained the reductions in their warehouse valuation as well as a further sum because it considers it overpaid MPAC for its assessment services. The refund came after the retailer challenged MPAC's assessment and won an appeal at Ontario's Assessment Review Board. Taken together, the three distribution centres concerned accounted for 10 per cent of Cornwall's tax base and brought in substantial revenues during the four years the assessments stood, i.e. from 2013 to 2016. Like all municipalities in Ontario, Cornwall pays MPAC to determine the current values of properties and relies on those assessments to charge and collect tax. Cornwall argues MPAC assessors were negligent because they included incorrect factors in making their assessments and fell below the standard of care owed to municipalities. MPAC said it wouldn't comment on its assessments of the three warehouses in Cornwall because they are before the Superior Court of Justice and the Assessment Review Board. However, a spokesperson said "MPAC takes its responsibility to provide assessments seriously and we continue to work closely with stakeholders throughout the assessment process". The issues in this case are potentially far-reaching and it will be very interesting to see the outcome of the legal process.

And finally, regular readers of this newsletter will be aware that I have an (unhealthy?) interest in the property tax liability of public toilets in the UK. This issue has been in the news again recently and, under the heading "Councils spending a pretty penny on loos", an article states that the government must exempt parish and town councils from paying business rates on the toilets they run. The British Toilet Association (who knew there was one!) and the Local Government Association refer to innovative solutions as playing their part in helping to halt the rapid rate of decline of public toilet provision. But while the "Use Our Loos" campaign (encouraging cafes, etc., to open up their toilets to the public) is admirable, what is urgently required is action by the government to exempt parish and town councils from paying business rates on the toilets they run and stop even more from closure. I will try to resist the use of any more toilet puns (like the "No Dumping" sign seen outside one public toilet!), but I do hope that a solution can be found for this growing problem before it is too late.

**Paul Sanderson**

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