

## International Valuation Standards & Property Tax Valuations



As President of the International Property Tax Institute (IPTI), I am invited to speak at a number of international conferences around the world each year. Frequently at these conferences, and in the margins, I am asked whether or not the International Valuation Standards (IVS) apply to property tax valuations. Well, put simply, 'yes' they do. Here is my short summary of what property tax valuers need to know about the IVS.

### **Property tax valuation is important!**

It is clear that property tax is an important source of revenue for governments in many jurisdictions around the globe. At the same time, it is also a significant expense for the owners and/or occupiers of both residential and non-residential properties.

In many countries, property tax is an *ad valorem* system. That is to say, the tax is based on the value of taxable properties within the jurisdiction.

Details of the tax base vary from country to country; sometimes it is based on the value of land only, in other cases it is based on the value of land and improvements such as buildings and other structures.

In the vast majority of cases, the value required is the *market value* of the taxable property as at a defined valuation date to ensure that the tax base is consistent.

In some cases, the value required is the rental value of the property; in other cases, it is the capital value of the property. In both examples, it is usually the case that the value required is the *open market value* of the property which requires a foundation of transaction evidence upon which to base the valuation.

### **The legal basis for property tax valuations**

Countries that have property tax systems need to have a legal basis for the system in order that it can be implemented and enforced effectively.

It is absolutely vital, therefore, that the legal framework – the legislation and any relevant case law governing the required valuations – is understood by those called upon to provide valuations, as well as those advising taxpayers about the accuracy or otherwise of the valuation that underlies their property tax bill.

One of the important attributes of a good property tax system is that it is transparent. This requires the property tax bill to be understood by taxpayers which, in turn, requires the value on which the bill is based to be clear and understandable.

Whilst many taxpayers will have an idea of the market value of their properties, most will not be familiar with the legal framework that governs the provision of their valuation.

### **The mass appraisal approach**

Because property tax systems normally require the provision of valuations of *all* properties within a jurisdiction at a particular date, the term “mass appraisal” is often used to describe the process.

The mass appraisal process is often supported by the use of automated valuation models which makes it more cost-effective than traditional “single property” valuations.

Within any jurisdiction there are likely to be some types of specialised properties – for example, airports, petro-chemical works, vehicle manufacturing plants, etc. – that cannot be accurately valued by automated valuation models and these are therefore valued by a single property approach.

However, whatever approach is used to value properties for property taxation purposes, it is imperative that the valuations produced are accurate and reliable.

The valuations provide a “distribution mechanism” for property taxes, i.e. the amount of revenue required by a jurisdiction is “spread” among the taxpayers according to the value of their properties. Incorrect valuations mean that some taxpayers are paying more - or less - than they should be in relation to other taxpayers.

## **Appeals**

The right for a taxpayer to challenge a property tax valuation is an important safeguard within most systems. Many taxpayers will use professional advisors to act on their behalf in respect of such appeals.

When dealing with a challenge to a valuation, it is essential that the valuer acting for the assessing authority and the valuer acting for taxpayers both approach their obligations in line with appropriate valuation and professional standards.

In this article I am not directly focusing on 'professional standards', but it goes without saying that all parties involved in the property tax appeal process must act in a professional and ethical manner.

## **The need for robust valuation standards**

Because property tax valuations are so important, it is essential that appropriate valuation standards apply to them.

Standards help to generate trust and transparency in the valuation process and that is why it is essential that they are applied within property tax systems.

There are some people who take the view that the existing International Valuation Standards do not apply to mass appraisal or property tax valuations because they are subject to specific legislation within different jurisdictions.

However, all valuations of property undertaken for *any* purpose are subject to the requirements of the legislation or legal system that operates in a particular country, and valuations for property tax purposes are no different.

## **International Valuation Standards**

The current IVS state:

*They are designed to be applicable to valuations of all types of assets and for any valuation purpose.*

This makes clear that the IVS do apply to valuations for property tax purposes.

Having said that, there are some aspects of the IVS that do not lend themselves directly to all aspects of valuation for property tax purposes.

The IVS "Framework", particularly the requirement for objectivity and competence on the part of "valuers" (which includes property tax assessors and appraisers), is directly applicable.

However, if inhouse employees are used for the initial provision of property tax valuations, e.g. in the case of a government assessing agency, parts of the IVS "Scope of Work" requirements such as the need to communicate the scope of work to a client and other reporting requirements, may not apply.

The IVS "Investigations and Compliance" and "Reporting" sections apply to property tax valuations with some modifications depending upon the circumstances.

The IVS "Bases of Value" and "Valuation Approaches and Methods" apply to property tax valuations whether carried out by the assessing authority or private sector valuers advising taxpayers.

## **Conclusion**

Valuation standards are necessary for all types of valuation, but given that there are so many valuations undertaken around the world for property tax purposes, it is particularly important to clarify that the IVS *do* apply to these valuations.

Where necessary, details of particular parts of the IVS may need to be adapted to meet the needs of property tax systems, but it is important for all concerned in such valuation work to be aware of, and follow, the IVS.

Only by applying the IVS can valuers be sure that they are complying with the requirements of recognised international standards and engendering the trust and confidence that property valuations require to be accepted.

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