International Property Tax Institute

PRESIDENT'S MESSAGE

December 2018

As this will be my last newsletter before the festive holiday period, please allow me to start by wishing all readers a very Merry Christmas and a Happy New Year. I hope you all have a very enjoyable time with friends and family.

One of the big stories from the USA was the recent announcement from Amazon about the location chosen for its large new second headquarters development, known as HQ2. For anyone who has not been following this story, hundreds of cities across North America have been competing with each other to secure HQ2 within their jurisdiction.

Amazon announced it has decided to split HQ2 between two locations - New York's Long Island City and Virginia's Arlington for HQ2. Both locations will receive a $2.5 billion investment from Amazon, and each will have more than 25,000 workers over time. The development projects promise to bring the cities an infusion of high-paying jobs and tax revenue, but have drawn fire from critics concerned about their impact on infrastructure and property values.

In Long Island City and Arlington, Amazon will have four million square feet of office space with the possibility of expanding to 8 million square feet. Amazon estimates an incremental tax revenue of over $10 billion in the next 20 years as a result of its investment and job creation in Long Island City and New York, and $3.2 billion over the same time period in Arlington and Virginia.

The Arlington headquarters will be located in what Amazon is calling "National Landing," which is less than 3 miles from downtown Washington DC. The newly-branded neighborhood includes parts of Pentagon City and Crystal City in Arlington and Potomac Yard in Alexandria. The company also announced a new hub in Nashville to oversee customer fulfillment, transportation and supply chain activities. It will employ 5,000 people. Nashville was on Amazon's short list for HQ2.

The second headquarters search began in September 2017 when Seattle-based Amazon announced it would start accepting proposals for what became known as HQ2. Amazon's criteria for HQ2 included proximity to a major airport, ability to attract technical talent and a suburban or urban area with over 1 million people.

New York state has agreed to provide $1.525bn in subsidies, the company disclosed in its announcement. That includes a tax credit worth up to $1.2bn, and a cash grant of $325m from the Empire State

Development agency. In addition, Amazon is applying for tax benefits through two city programs that give breaks to any company that relocates to the boroughs outside Manhattan or builds new industrial and commercial space. Those programs could bring Amazon another $1.3bn in business tax credits and property tax breaks.

But the company has faced a backlash for conducting such an extensive headquarters search and soliciting generous subsidy offers from cities around the country, only to settle on two of the highest-profile metropolitan areas on the east coast. One critic said, “The whole exercise was just to create more pressure for more tax breaks.” Another said, “Amazon is a billion-dollar company. The idea that it will receive hundreds of millions of dollars in tax breaks at a time when our subway is crumbling and our communities need more investment, not less, is extremely concerning to residents.”

A more neutral observer stated “A normal way for governments to raise revenue in the United States is with property taxes. If you build a gigantic new office tower somewhere, then you are going to owe a lot of property taxes to the local government. So, if you’re smart and have good lobbyists, you’ll say, “Hey, we were thinking of building a huge office tower in your city, but your taxes are so high. Maybe instead of paying the 8 percent property tax rate that’s on the books, we could pay 2 percent instead for the first 20 years. The city may well agree to this proposal because 2 percent of a giant office tower is still a lot more than 8 percent of a parking lot. What’s more, bringing your office tower to town is going to generate a lot of sales tax and income tax revenue while probably helping to bolster property values across the board. So, while reporters are going to write, accurately, that your company got millions of dollars in tax breaks in order to build your office tower, the city still ends up with more tax revenue than it would have had if you hadn’t come to town.”

As indicated, there is a significant link between the announcement and property tax since most of the cities competing to attract Amazon offered some kind of property tax inducement for them to do so. This raises the interesting issue of whether or not property taxes should be used in this way and how influential such inducements may be to a large corporate entity in considering a location decision. Inevitably, views differ on these issues and IPTI maintains its strict neutrality by simply reporting the facts and recording differing opinions about them.

Moving on, many readers of this newsletter also receive copies of the Journal of Property Tax Assessment & Administration which IPTI publishes jointly with the International Association of Assessing Officers (IAAO). I am pleased to say that, following discussions with IAAO colleagues, Members of IPTI will soon be able to access the digital version of the Journal. Further details on how to do this will be provided shortly.

IPTI is also pleased to announce the signing of a Cooperation Memorandum of Understanding with the Property Valuation Services Corporation (PVSC). PVSC is the valuation agency responsible for assessing properties for property tax purposes in Nova Scotia, Canada. In 2016, PVSC became the first assessment jurisdiction audited and certified by IPTI regarding its assessment practices and performance.

Our partnership with PVSC evolved from 2016. Earlier this year, PVSC kindly hosted IPTI’s annual Mass Appraisal Valuation Symposium (MAVS) in Halifax, Nova Scotia. During the MAVS, we spent some time exploring the opportunity of continuing to work with PVSC in appropriate areas.

PVSC is offering mass appraisal services to assessment jurisdictions outside of Nova Scotia. IPTI's relationship with PVSC is an opportunity to partner on projects where IPTI can provide impartial policy advice, guidance and training, and PVSC can provide services that require valuation expertise.

IPTI held a number of interesting events during November. At the beginning of the month, we held a one-day workshop in partnership with the Institute of Municipal Assessors (IMA) on the topic of “Conducting Appropriate Sales Investigations”. Our two experts at this workshop covered challenges with data collection from the buyers’ and sellers’ perspective; sales verification concepts; questionnaires and processes; sales adjustment grids and sale analysis; stratification of sales, use and location.

Later in November we held a web class in partnership with the Royal Institution of Chartered Surveyors (RICS) on the topic of “The Valuation of Contaminated Land”. Our two experts - a lawyer and an appraiser - covered this difficult topic well and referred to the differing nature of the contamination/impairment and the type, and cost, of necessary remediation works.

Also in November we had an IMA-IPTI webinar on the very topical subject of the “Valuation of Big Box Retail Properties”. The correct method of property assessment valuation of big box stores has proved challenging and controversial. There is a lot of discussion taking place regarding the appropriate valuation methodology. Our presenters in this webinar shared their experiences on valuation methodology and how disputes might be settled without resorting to litigation.

We held another RICS-IPTI “Annual Property Tax Seminar” in Toronto towards the end of November. This event was well attended by various industry groups and covered a number of topical issues including plans and stakeholder wishes for the forthcoming reassessment in Ontario and concerns, and some spirited discussion, around the Assessment Review Board’s implementation of its revised rules.

And finally, right at the end of the month, we held a one-day workshop in partnership with the RICS on the topic of “Property Assessment and Taxation in Canada”. This workshop, held in Toronto, provided an in-depth look at the strengths and benefits that distinguish property tax from other forms of taxation. We had two experts speaking at the workshop and it seems to have gone down well with those attending.

Looking ahead, on 6th December, we are holding a one-day workshop in partnership with the IMA on the subject of “Separating Business Enterprise Value from Real Estate Assessment Value”. This workshop will include a panel of experts who will discuss the important principles and guidelines in this challenging area.

In January 2019, we will be holding an IPTI webinar on “Assessment and Value Trends: US Experience” for our Corporate Advisory Committee Members. Also in January 2019, I will be chairing the annual “Rating Question Time” in London, England.

Other events in 2019 include a conference in London (May); our annual MAVS in Slovenia (June); a training course in Brazil (August); a Caribbean conference in the Bahamas (October) and a Local Government Conference in Melbourne, Australia (November). It looks as though we will have another busy year!

As usual, more information about all IPTI’s 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 Australia, the Grattan Institute's State Orange Book 2018 shows that, if state treasurers relied less on taxes that hurt the economy and more on the ones that are the very best, they could provide a huge boost to their economies. The report states that taxes on transactions, such as stamp duties on real estate purchases, are particularly inefficient. They make it more expensive to move home to take a new job across town or in a different town, encouraging people to stay put. They make it more expensive to move into bigger or smaller homes, encouraging people to renovate instead. With the typical stamp duty bill now above A$40,000 in Sydney and Melbourne, this is significant. In contrast, the report says that taxes on land are extraordinarily efficient, and council rates equally so. The report states that all state treasurers should follow the lead of the ACT and replace stamp duties with broad-based property taxes. Their calculations suggest that doing so could make Australians up to $17 billion a year better off, while also making housing more affordable. An annual flat tax set at between A$5 and A$7 for every A$1,000 of unimproved land value would be enough to fund the abolition of property stamp duties. To ensure that asset-rich but income-poor households could stay in their homes, the report says state treasurers would have to allow them to defer paying the levy (with interest) until they sell their properties. And state treasurers should follow another ACT lead and introduce explicit "betterment taxes" to capture some of the windfall gains from rezoning of land. Government permission to build higher-density housing, or convert farmland into greenfield housing land, generates large unearned windfall gains for landowners. Taxing these windfall gains would be a particularly efficient form of taxation, the report states, as it would reduce the opportunities for corruption in the planning system and would enable state treasurers to reduce other more economically harmful and regressive taxes.

In New Zealand, city-dwellers are invited to have a say on whether they could stomach "value capture" taxes to help pay for infrastructure. A recent report states that value capture taxes, which are used in some cities overseas, are paid by property owners on increases in the value of their properties as a result of a local council building infrastructure like a train link, or a new road, or rezoning the property. It's one of a number of possible new ways to tax households and businesses to pay for maintaining and upgrading infrastructure in towns and cities outlined by the Productivity Commission in an issues paper. Others include local GST-like expenditure taxes and switching from using capital values to land value to calculate property rates. The commission will report on its conclusions in the middle of 2019 and issue a final report to Government by the end of November, said commission chairman Murray Sherwin, who acknowledged that proposals for new forms of taxation could raise strong reactions. "It is a sensitive area," Sherwin said. Once the final report was delivered, it would be up to Government, and opposition parties, to decide how to take it forward. The commission said increases in property values as a result of council investments in infrastructure were enriching private landowners, and targeted rates, or fixed charges, were poor ways of taxing them on their gains. "Neither of these approaches strongly reflects the windfall gains that a private owner receives," the commission said. A law change would be needed to allow the "uplift" in land values to be taxed by councils. Sherwin said value capture had been used in Melbourne, Australia, to help pay for inner city rail. Auckland Council is interested in value capture as well. Last month it published a paper on how rapid transit investments lifts property prices.

In Italy, a recent headline read "Vatican hit with €4bn property tax bill". It seems that Europe's top court has ordered Italy to recover taxes unpaid by Vatican-owned non-commercial properties. The European Court of Justice's (ECJ) €4bn judgement covers the years 2006-2011 and will affect Vatican schools, hospitals and other properties. Previously, Italian law enabled the Vatican and other religious orders to avoid property tax so long as the building in question contained a chapel. In 2012, the European Commission ruled in favour of a Montessori school based in Rome that argued it faced unfair competition by the untaxed status Vatican-owned schools enjoyed. However, due to "organisational difficulties" the EU institution said it would not retroactively collect the tax due. One of the lawyers that represented the Montessori school in court told a news agency: "This is a historic decision. The European Commission must now order Italy to collect the taxes or face infraction proceedings."

In Montreal, Canada, it is reported that more than 22,800 small businesses are to get a tax break. The city has introduced a differentiated tax rate for non-residential buildings, shifting the burden to more valuable properties. Business groups are praising the city of Montreal's 2019 operating budget, which will cut property taxes for many small businesses. "It's very good news for small businesses in Montreal," said a senior vice-president at the Canadian Federation of Independent Business. "Of course, there's still work to do, but I think that we have to say bravo today." The budget will reduce the property tax rate on the first $500,000 of a non-residential building's evaluation by an average of 9.9 per cent. Fifty-seven per cent of non-residential buildings are valued at under $500,000, the city said, and will see the full decrease. Buildings valued at between $500,000 and $2.9 million will see an average reduction of 3.2 per cent, while buildings valued between $2.9 million and $3.1 million will see an effect "more or less neutral," the city said. Buildings valued between $3.1 million and $10 million will see an average increase of 0.8 per cent, while buildings valued at more than $10 million will see their property taxes increase by an average of 1.8 per cent. Most businesses that rent have what's called a triple net lease. That means they are directly responsible for paying property taxes in addition to their rent, unlike residential tenants whose rent is influenced by property tax rates. Non-residential property taxes in Montreal were the highest in the country in 2018, according to a recent report, and were 3.78 per cent higher than residential rates. The new differentiated tax rates are part of an effort to reduce that gap, the city said. Between 2020 and 2023, non-residential tax rates will increase at a rate 25 per cent slower than residential properties, according to the budget. Many small businesses in downtown Montreal are seeing their property tax rates rise as a result of increasing property values, and for small business owners, those increasing property values don't necessarily translate to an increase in traffic at their store. The city still expects the overall non-residential property tax burden to rise by an average of 1.3 per cent in 2019, the municipal administration said.

In Thailand, after 19 months of deliberation, the National Legislative Assembly unanimously voted to pass new land and property tax rates which will come into effect on January 1, 2020. The new tax rate is 0.3 per cent for a residential unit worth more than Bt50 million, property worth below Bt50 million is exempt. However, if a house owner does not own land, the tax exemption will apply to a house worth no more than Bt10 million. Estates being used for agricultural purposes will be subject to 0.15 per cent rate of the appraisal value. Farmland worth no more than Bt50 million is exempt. Commercial use property will be taxed at 1.2 per cent. Vacant land will be taxed at 1.2 per cent and it will be subject to a tax increase of 0.3 per cent every three years if it remains unused. But the maximum rate is 3 per cent. All these rates are ceiling tax rates, the committee chaired by Finance Ministry's permanent secretary will decide exact rates later. Critics say the new law would not help much in terms of government revenue, nor will it help to narrow the wide gap of inequality, due to tax exemptions.

It is not every day that you read a headline which states "Property Taxes Are Too Low", but at least one tax expert and an economist said at a recent conference that Jamaicans are paying too little property taxes to meet the expectation for its eventual use. The expert said some Jamaicans complain about the local rate of taxes on property, but were willing to go overseas and pay higher rates. "We line to up to get visas to US and Canada and we pay their property taxes, which are higher. But in Jamaica, the Government has to pursue a lot of us because we don't pay as much attention to the property tax," she said. She went on to say, "When I look at the rate of property taxes and what we expect from it, I think it's too low. We like to complain about our level of taxation and we don't look at what we are paying for, and if we pay more, can we get better service?" For the April to June period this year, just over $3.7 billion was paid by property owners while $3.6 billion was collected during the same period last year. "My concern is the rate of the property tax, as the study has shown, it is quite low in terms of when you compare it to the Organisation for Economic Cooperation and Development (OECD) countries to which Jamaicans like to immigrate" she continued. The economist argued that higher property taxes would trigger a reduction in income taxes and lower GCT. "Taking the cost of distortion into account and the international comparisons, our property taxes are indeed too low" he said. He also said the current property tax scheme is the least distorted of the taxes since the amount of land the taxes are calculated on does not change. I imagine Jamaicans may not be sending either of them a Christmas card this year!

And finally, two stories this month. The first involved the purported use of a building in England as a snail farm. Properties used for agricultural properties are exempt from property tax in the UK, but the local authority were suspicious about the claimed use of the building for this purpose, so they sent along a "real" snail farmer to inspect it. He reported that, although there were a few snails in small boxes in the building, it was not properly set up as a snail farm. The snail farmer gave evidence in court about his discoveries and the court held the so-called agricultural use was a "sham" and ordered them to pay the property tax (business rates) that were due. For some reason, this snail story put me in mind of the old joke about why you can't get escargot in a burger bar; answer - because it's not fast food!

The second story also comes from the UK and shows that the taxman can, sometimes, have a heart. It transpired that, according to a request under the Freedom of Information Act, the main tax collecting body in the UK (HMRC) recently spent a total of £10,000 over a period of five years in sending flowers to taxpayers to say sorry for screwing up their tax returns. A spokesman for HMRC said: "For some mistakes, a simple 'sorry' may not be enough and we think sending flowers can be a more personal gesture to put things right." I imagine most taxpayers would prefer to have their tax bills calculated right first time - and/or get their money back quickly - rather than receive a bunch of daffodils!

Paul Sanderson

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