PRESIDENT'S MESSAGE

January 2019

May I take this opportunity to wish all of you a very Happy New Year. I hope you had an enjoyable time with family and friends over the festive period and are now looking forward to what 2019 has to offer.

A headline published on Christmas Eve in an Australian website caught my eye; it read "Broad-based taxes drive economic inequality" and went on to say: "Broad-based taxes are often designed to guarantee wealth concentration, not to mitigate inequality."

The author was commenting on the various arguments that are being put forward in favour of extending existing land taxes in Australia. He has an interesting view of history as he says: "There was a time when the big landowners had to bear the costs of defending their territory - supply the arms, the vitals, the men and the front-line leadership. But the idea gradually developed that the "plebs" shouldn't only do the marching, fighting, dying and suffer deprivation, but could help with the costs of defending the threats to "their" country.

He goes on, "A spate of taxes were thus introduced: poll or head taxes, customs dues, stamp duties, liquor and tobacco taxes, income tax, sales taxes, etc. Almost everything that could raise a little from a lot of people is taxed. But taxes on land and resources - which might raise a lot from a few - have been disparaged, even staunchly opposed. It makes political sense - hurt a lot of people a bit, and you get a disorganised murmur. But hurt a few a lot, especially members of the "influensia" (his name for the "ruling class") and you get an orchestrated, deafening roar."

He goes on: "But now, as property ownership has become much more widespread - with suburban sprawl, "mum and dad" investors, subsidised first-home buyers and 5-acre lifestyle blocks - taxes on property are no longer as unthinkable as they used to be. They can now be broad-based. The consensus view seems to be that taxing property - which may be just land or land and improvements - should be broad-based and is a complicated matter. The design and implementation needs very careful consideration."

The author is concerned that, if a wider liability for property tax is introduced, the ruling class will ensure there are hidden loopholes, exemptions and caps so their legal obligations are minimised. In case anyone thinks he is being too cynical, he says: "Just look at our income tax laws and see how difficult it is for the average person to opt out.

But how many of the “influensia” use tax havens, family trusts, superannuation concessions and charity/consultancy/company set-ups to handle their millions legally with minimum pain to their pockets - though with highly paid tax experts as a deductible tax expense - regardless of their moral obligations.”

He then moves on to his main point: “If you wish to have a piece of Australia for your exclusive use and benefit - as and when you determine - then you compensate the rest of us for our loss of amenity, for it is "our" land. Further, the compensation must be proportional to the value of that land because it is what we - as a society - provide to that parcel of land that gives and maintains its value; services that provide defence and security, policing, transport facilities, educated people power, health, education and recreational institutions and so on.”

Finally, he advocates: “a flat rate, which is nationally uniform and uncapped, land value tax regime would be broad-based, fair and morally justified.” He goes on to state: “This would put us on the road to a vibrant, fair and equitable society. All who wanted access to land for productive and useful purposes would be able to get it because land would become much less costly to access.”

And he concludes: “In short, broad-based taxes are not in themselves benign and fair. They can be, and have been, designed with features that make them fundamentally unfair, with assessments that are subject to “interpretation” and that enshrines the persistence of inequality in our society. Broad-based property taxes should have no place in any serious discussion about tax reform without recognition of the historical trajectory of such taxes, unless there are caveats to ensure fairness and to obviate any caps and loopholes that would contribute to systemic inequalities.”

Whilst the article is focussed on the issues surrounding extending existing land/property taxes in Australia, the points raised will no doubt resonate with all involved in property tax policy and administration.

Moving on to IPTI matters, I am pleased to say that we have just been awarded another contract, in partnership with the Institute for Revenues, Rating and Valuation (IRRV), to provide consultancy advice to the Irish Valuation Office (VO). Although this is a new contract, won against bids from other international organisations, in many ways it is a follow on to the work that IPTI & IRRV completed in 2016 in relation to a process review of the Irish VO which resulted in a report entitled “Delivering a World Class Valuation Service: A Roadmap for the Future”. We are looking forward to working with IRRV colleagues again on this next phase of the modernisation programme being undertaken by the Irish VO.

We have also just completed the first phase of a project providing advice to a government valuation agency in Canada that wants to acquire a new CAMA/AVM system and requested IPTI’s advice on various aspects of what they should be looking for. The next phase will involve advice on the preparation of procurement documentation so they can proceed with the acquisition.

Another project we have recently completed involved contacting large corporate users of property tax management software to support the effective management of their property tax liabilities across many jurisdictions, both nationally and internationally. This was a very interesting research exercise and resulted in an IPTI report that many taxpayers will find interesting, particularly if they manage property tax payments in respect of large portfolios of properties located in many different tax jurisdictions.

Just looking back for a moment, we received some very positive feedback in respect of the one-day workshop we recently held, 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. Here are a few extracts from the feedback: "great course material - very comprehensive information"; "great real time examples and speakers"; "group work was great". However, we did have one negative comment: "too much food at lunch". If that is the only complaint we get, we must be doing something right!

And, during December, we held a one-day workshop in partnership with the Institute of Municipal Assessors (IMA) on the subject of "Separating Business Enterprise Value from Real Estate Assessment Value". This workshop included a panel of experts who discussed the important principles and guidelines in this challenging area. Having mentioned the IMA, I was pleased to read the latest edition of the IMA's publication - "Insti-News" - in which the IMA's new President, Greg Baxter, referred to their educational offerings. He noted that, over the last 6 years, the IMA, in partnership with IPTI, have provided "over 70 events held in various locations with more than 3,200 attendees". I should add that, in the same publication, there is an article by my colleague Jerry Grad, IPTI's CEO, on the topic of "Principles of Equity: Challenges with the Determination of Equitable Assessments" which is a recap of the main issues considered during a panel session on this topic at the IMA's 2018 Annual Conference.

On the subject of articles, I was recently asked by the International Valuation Standards Council (IVSC) to write an article on the extent to which valuations for property tax are subject to International Valuation Standards (IVS). This article, which makes clear that the IVS do indeed apply to valuations carried out for property tax purposes, has been published in the latest edition of "IVSC e-News" and a copy is available on the IPTI website. Other organisations have also requested permission to publish the article.

Readers may recall I mentioned in my last newsletter that the "Journal of Property Tax Assessment & Administration" - which IPTI publishes jointly with the International Association of Assessing Officers (IAAO) - was to be published in digital format. I am pleased to say that the new digital version was sent out to Members just before Christmas and I hope everyone is enjoying the new format.

Many of you will be aware of PK Tang who has been the Commissioner of Valuation and head of the Rating and Valuation Department in Hong Kong for many years. PK has also been a valued Member of IPTI's Board of Advisors for many years and we have been very grateful to him for his support and advice. PK will be retiring in early January 2019. I would like to thank PK for his many contributions to IPTI and wish him all the best for a long, happy and healthy retirement. We look forward to working with his successor, LY Choi, who is currently the Deputy Commissioner of Valuation at the RVD.

Looking ahead, in January 2019, I will be chairing the annual "Rating Question Time" in London, England. In February 2019, we will be holding an IPTI webinar on "Assessment and Value Trends: US Experience" for our Corporate Advisory Committee (CAC) Members. Another event for IPTI's CAC Members will be held in April 2019; this will be on the topic of "Appeals & Challenges - a Corporate Perspective". We are also planning a series of webinars and workshops throughout next year for property tax professionals.

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.

The Greek Parliament have voted for the average taxpayer to pay 10 percent less in next year's Single Property Tax (ENFIA), easing the load on small property owners, but the Finance Ministry has still not published the formula according to which the tax is calculated, so no one is able to actually plan how much money they'll need to put by for it. The clause that was voted provides that if the total value of an individual's property assets comes to 60,000 euros, "the ENFIA due is reduced 30 percent, and for every 1,000 euros of value above 60,000 euros the discount is reduced by 0.70 euros and cannot exceed 100 euros." It is reported that neither professionals in the real estate sector nor accountants understand the clause, particularly how the discount is reduced for properties worth more than 60,000 euros. Data show that some 3.49 million owners with assets valued at up to 60,000 euros will save 55 euros each on average, while taxpayers with larger properties will see the discount reduced until it comes to zero for owners of assets worth at least 200,000 euros. In fact, those minimal reductions for small property owners may even come to nothing given that next year (as well as in 2020), the taxable rates of properties (known as objective values) will be revised, leading to significant changes to the calculation base. Furthermore, 2020 is supposed to see the full alignment of the objective values used for tax purposes with market rates, so many owners could be in for a nasty surprise.

In the UK, the much-maligned business rates (property tax for non-domestic properties) system will face fresh scrutiny in a new inquiry by the Parliamentary Treasury select committee in the new year. Recently, Nicky Morgan MP, chair of the committee, held a joint evidence session with the Housing, Communities and Local Government select committee to agree the terms of reference ahead of its inquiry. It is understood that a particular focus of the inquiry will be on how to tax the booming digital economy to benefit the UK's struggling high streets and how the Budget's measures fail to support larger retailers. Earlier this year, the UK Government resisted pressure from retailers to launch a full-blown reform of business rates, which generate £30 billion annually, by arguing that international corporation tax was a higher priority and there had been no consensus on an alternative system. The last inquiry into business rates was in 2016. In October 2018, the Chancellor unveiled £900m of business rates relief for shops with rateable values of less than £51,000, discounting bills by a third. But according to real estate advisers, nearly 50,000 retail premises with a rateable value above £51,000 will be forced to pay an extra £128m. There has been a string of retail collapses during 2018 and many chains have been forced to close stores. Retailers argue that rising costs - and business rates in particular - are becoming an insurmountable burden. Retailers alone will pay around £8bn in business rates this year and have come under huge pressure from a rise in import costs, dwindling footfall and their fast-growing digital rivals that are said to be "stealing" market share without the hefty costs of leasing and maintaining property.

Staying in the UK, but moving to Scotland, a report prepared for the Scottish Land Commission (SLC) argues that a tax applied directly to the value of land could help deliver Scotland's land reform objectives and raise revenue in a more 'progressive' way. I should declare an interest in this matter as I was asked for my views on the topic by the team from the UK University of Reading which produced the report for the SLC. The report argues that there is scope for reform of existing land and property taxation. With a total estimated value of around £5 trillion, or just over half of the total net worth of the UK, land is the most valuable asset in the country, leading some economists to question whether more needs to be done to ensure that the gains from rising land value benefit society as a whole. The SLC chief executive said that the report provided a good evidence base for further discussion: "The research suggests land value tax could contribute to addressing key land reform objectives, including bringing vacant and derelict sites into use, reinvesting rising land values to public benefit and moving to a more diverse and productive pattern of land ownership. While the theoretical case for land value tax is strong, this research focused on international experience in implementing land value tax and it provides useful lessons on both the policy approach and practical issues that need to be considered. The SLC will now be engaging widely with stakeholders to undertake further analysis of role land value tax could play in delivering land reform priorities." Opponents are already lining up to challenge this view. One organisation states, "Whilst the theoretical benefits to a land value tax are that it encourages land to be used more productively as the tax would be based on the value of the land in its optimum use as opposed to its actual use, the findings of the report is that there is a lack of practical evidence of these benefits amongst the countries considered as part of the study. There are a number of practical issues that need to be considered carefully by the Commission. Land is already exposed to numerous taxes, including capital gains tax on sale, inheritance tax on death, as well as Scottish taxes on acquisition, such as land and buildings transaction tax. Complexity in this area is already burdensome on business and with the agricultural sector already facing significant change post-Brexit, the timing of possible additional tax burdens should be considered carefully to ensure the sector is attractive to the next generation."

A recent report highlights the need to expand the revenue base for governments in Africa. The report states that budget deficits are a common feature in most developing economies. Earlier, foreign aid and grants were complimenting government revenue. Over past few years, it says, foreign aid has been reduced for developing economies adding to the problems of financing budget deficits. Economies have been implementing tax reforms to enhance government revenue. Tax reforms consider multiple taxes based on price elasticity of demand which are suitable for developing countries to generate revenue for wide coverage of taxpayers. Based on studies, the report says that taxes with inelastic demand include property tax, taxes on conspicuous consumption, punitive income, inheritance, tobacco, cigarette and alcohol, etc. These taxes are important as they can generate revenue at progressive rates. Most countries in sub-Saharan Africa have high budget deficits and tax revenues account for less than a fifth of their GDP. These countries have low incomes and non-tax revenues tend to be volatile, which is making their finances less stable and predictable. Recent tax reforms among African countries are aiming to expand the tax base through wide coverage using direct and indirect taxes. Among direct taxes, property tax has been considered as the ideal source of income for municipal governments in some African countries. In Ethiopia, Mozambique, the Comoros, and several Nigerian states, municipal governments raise a presumptive levy on buildings based on size and location, simplifying the system to a degree where it is both transparent and easy to administer. In Burkina Faso, the national presumptive residence tax is determined by housing characteristics and the supply of local public goods. The report recommends that property tax should be reformed in Africa. If local authorities simplify the assessment of rates, make taxpayers aware of the benefits of compliance, and address political resistance from wealthy property owners, a tax on land and buildings could strengthen local political and economic development.

In Canada, a professor based in British Columbia has proposed an innovative property tax system to help housing affordability. UBC Sauder School of Business associate professor Thomas Davidoff suggests a new method for increasing homeowners' annual property taxes that would result in lower income and sales taxes for all residents. He says, "We've got a really out-of-balance tax system here - it's a great place to buy real estate but not a great place to make a living, in terms of tax policy." Davidoff suggests that property taxes be calculated based on the potential rent of the home, not the assessed value. That would result in increasing homeowners' property taxes across the board, to around four times the national average, compared with the low property taxes homeowners currently enjoy. He says, "Essentially, what I am proposing is a transfer from owners to renters, meaning property owners would pay more taxes and renters less, but everybody would pay less income and sales tax. This would be possible because while some of the additional property taxes would stay within the municipality, the rest would get kicked up to the provincial government. The province could then cut income and sales taxes for everyone, provided of course that they treat it as a budget-neutral transfer, and don't find new ways to spend the money."

And finally, in Western Australia (WA), a man has his property seized because he refused to pay $300,000 owing in rates (property tax). He apparently refused to pay because he believes local governments are "unconstitutional". It seems that the man - a former police officer - takes the view that Australian legislative laws "only apply if you consented to them". Previously, he was declared a "vexatious litigant" by the Supreme Court of WA with his position being described as "nonsensical and incoherent". The man said the city could not seize his land because he claimed it under Magna Carta. "It is not getting sold because I have it held under clause 61 of Magna Carta," he said. Magna Carta - a charter of rights - was originally agreed to by King John of England in 1215 as a solution to a political crisis. Since then it has been the foundation of constitutional and parliamentary government for Britain and Commonwealth countries. However, an expert recently stated that, although Magna Carta was an important historic statute, it had little relevance in today's society. A spokesperson for the city stated, "We require rates to run a city that functions with all the services that everyone needs from day to day. If people think they are above contributing to that under lawful direction from the state, then regrettably we must take such severe action." He went on to say, "The curious thing is I have never heard any single one of the objectors ever complain that the law is invalid if it gives them unemployment benefits or if it gives them any advantage. Nor do you ever see them refusing to use a hospital or a school or a road because it has been paid for by other people under invalid taxes or rates. People tend to just want to take the benefits and not want to pay or contribute." Sadly, of course, this is the same the whole world over - the "best" tax is always one that someone else pays!

Paul Sanderson

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