PRESIDENT'S MESSAGE

February 2019

It is reported that, in California, the San Francisco supervisors are considering putting a vacant-property tax on the forthcoming ballot. At the same time, it is also reported that nearby Oakland is struggling with the reality of implementing one.

Last November, Oakland voters approved a tax that applies to any privately-owned property in the city - including residential, commercial and empty lots - that is not "in use" for more than 50 days in a calendar year starting in 2019. The annual tax is $6,000 per parcel for most properties, regardless of size or value. The tax for condo or duplex units or ground-floor commercial space is $3,000 per year. There are 10 possible exemptions which I will come back to shortly. The tax will be added to annual property tax bills starting with the one that goes out this year. It will continue for 20 years.

Oakland's City Council put this on the ballot, saying it would raise $10 million annually, which can only be used for homeless services, affordable housing, programs to fight blight and illegal dumping, administer the tax and defend any possible lawsuits. It passed with 70 percent of the vote. So far, so good.

However, as is often the case with a "good idea", the issue now arises of defining "in use," identifying vacant properties, clarifying the 10 exemptions, developing software to administer the program and forming a commission on homelessness to recommend how the revenue should be spent.

In December, the city's Finance Department sent a letter to owners of 25,000 non-owner-occupied properties warning them about the tax should their property be deemed vacant. One of the many issues that reportedly needs clarification is one that states "for parcels with multiple units, whether residential or non-residential, the parcel is not vacant if any unit on it is not vacant. A condominium, duplex, or town house unit under separate ownership is treated as a separate parcel …"

As already indicated, there are 10 exemptions to Oakland's new vacant-property tax. They are:

(1) Owner is "very low income," as defined by the U.S. Department of Housing and Urban Development (HUD). The city wouldn't define it. But HUD's website says that the income limit in Oakland is $40,700 per year for a one-person household and goes up with family size.

(2) Owner is 65 or older and "low income," as defined by HUD. That limit is $62,750 for one person.

(3) Owner of any age receives Supplemental Security Income for a disability or Social Security Disability Insurance benefits and has income that does not exceed 250 percent of the 2012 federal poverty guidelines issued by the U.S. Department of Health and Human Services. That limit is $11,170 for one person and goes up with family size.

(4) The tax would create a "financial hardship due to specific factual circumstances."

(5) The property is vacant because of a "demonstrable hardship that is unrelated to the owner's personal finances."

(6) The property is under active construction.

(7) The owner has an active building permit application being processed by the city.

(8) The owner has a "substantially complete application for planning approval" under review.

(9) The owner can prove that "exceptional specific circumstances prevent the use or development of the property."

(10) The owner is or is controlled by a non-profit organization.

It will be seen that many of the above exemptions are capable of differing interpretations and such uncertainty is not only undesirable, but may also lead to inconsistency and unfairness.

In its letter to property owners, the Finance Department said it would "be difficult to answer questions" until the ordinance is adopted. It strongly urged them, in a bold and underlined comment, to "not make any inquiries regarding this letter or the tax at this time."

Nobody is sure how many vacant properties there are and how many will get an exemption. A local urban planning think-tank said in its voter guide that it supports the idea of a vacant parcel tax, as a way "to help move vacant land into active use and eliminate blight," but it opposed this particular measure because it would be very difficult to implement fairly. "The definition of what constitutes vacancy is very broad," it said, and "the exemptions are also very broadly defined," such as a "demonstrable hardship that is not financial." It also said a flat tax may disproportionately affect small property owners.

The message from this story is that, as with all aspects of property tax, there is a need for clarity about what is to be taxed, the basis of the tax and who will - and who will not - pay the tax. Before crafting such a tax, San Francisco might want to consider the challenges currently facing Oakland.

Moving on, IPTI is involved in a number of projects at present which have involved, or will require, contributions from our contacts around the world. I would like to take this opportunity of thanking colleagues in the IPTI network who kindly provide information when requested to do so. Whenever possible, we share the outcome of these projects either by publishing our reports where it is possible to do so, or referring to them in presentations at IPTI conferences and other events. The fact remains that one of the strengths of IPTI lies in the expertise of our contacts in so many jurisdictions around the globe and their willingness to share information and best practice. Thanks to all of you.

During January we held a meeting of IPTI's Board of Advisors. I am pleased to announce that LY Choi, who succeeded PK Tang as the Commissioner of the Hong Kong Rating and Valuation Department, has joined our Board. PK was involved with IPTI for many years and we wish him a long, happy and healthy retirement. In addition to the normal items we discuss, the Board also considered the effectiveness of property tax incentives, exemptions, rebates, reliefs, etc. The story from California with which I started this newsletter emphasises, yet again, the importance of certainty in connection with these issues.

Also during January, we visited both Dublin in Ireland and Belfast in Northern Ireland in connection with a project we are undertaking jointly with the Institute of Revenues, Rating and Valuation (IRRV). I am very grateful to colleagues in both the Irish Valuation Office in Dublin and Land and Property Services in Belfast for their hospitality and cooperation with our project. Both the IRRV and IPTI are pleased to be involved with this project and look forward to further meetings over the coming months.

Another event that took place during January was the annual UK "Rating Question Time" that is held in London. I have the privilege of providing independent chairmanship of this event which involves practitioners coming together to ask questions of a panel of experts from both the public and private sectors, and the judiciary, on topical matters concerning the business rates system in the UK. Business rates, which are the property tax payable in respect of non-residential properties in the UK, are always a source of contention as the tax burden is the highest in the world and the relatively new appeal system has created a number of issues for those involved. I am pleased to say that, as usual, the event was both informative and enjoyable for all concerned.

Looking ahead, in February we are holding a joint event in London in partnership with the Royal Institution of Chartered Surveyors (RICS). This will be a round-table event involving practitioners coming together to discuss Land Value Capture (LVC). It is clear that LVC is very topical in many parts of the world, but its introduction and implementation involves a number of challenges that result in there being relatively few successful schemes. We hope that this RICS-IPTI event will help to shed light on the main issues and how they might be addressed.

In March we will be holding an event in Chicago for corporate representatives on the topic of "Appeals & Litigation Management - Corporate Perspective and Challenges". More details will be released shortly about a series of webinars and workshops throughout the year for property tax professionals.

Also in March I will be speaking at another RICS event, this time at their "Valuation 2019" conference which is being held in London and will provide practitioners with an update on many different aspects of valuation. I have been asked to speak on the topic of "Reforming Business Rates – an International Perspective" which, I hope, will be of interest to valuers from all parts of the profession.

Other forthcoming events in 2019 include a CBI-IPTI business rates conference in London (May); our annual MAVS in Slovenia (June); a training course in Brazil (August); the annual Property Tax Workshop run by COST in cooperation with IPTI which, this year, is being held in Las Vegas (September); our annual RICS-IPTI Caribbean conference in the Bahamas (October) and a Local Government Conference in Melbourne, Australia (November). 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 a recent newsletter I referred to Amazon's announcement about their new headquarters (HQ2) in the USA which led to a great deal of public comment. It is now reported that the tax breaks offered to Amazon are going to be scrutinized by the New York City Comptroller. He has issued a request to the city's Economic Development Corporation (EDC) for information that would help him fact check the numbers behind the deal. It seems that the City Comptroller has publicly decried Amazon's deal with the city, calling it a "taxpayer-funded entitlement program" in an early December op-ed in the Gotham Gazette. Now, he has issued a request to the city's EDC for the detailed information behind the numbers that sealed the Amazon deal, allegedly behind closed doors. He has requested the EDC to return specific information that would help him fact check the assertion that Amazon's Long Island City development would provide a 9-to-1 return on investment, as well as breakdowns on the refundable tax credits Amazon stands to gain through the Relocation and Employment Assistance Program (REAP) and the Industrial and Commercial Abatement Program (ICAP). REAP is a tax credit program originally designed to help attract employees outside of Manhattan's business core. In his Gotham Gazette op-ed, the Comptroller says Amazon stands to receive some $900 million in tax credits from the program. By comparison, last year 205 firms shared $32 million in tax credits under the program; but because there's no cap on REAP, Amazon can accrue $75 million in tax credits from the program in a single year. The program as it stands also does not require its recipients to meet performance goals, so if Amazon does not deliver on its promise to hire 25,000 employees at an average pay rate of $150,000 - and instead hires 25 employees at an average pay rate of $30,000, for example - it can still receive the tax credit. ICAP is a tax credit that offers incentives to companies that renovate or build outside of Manhattan to spur economic development. Amazon stands to gain $400 million in property tax abatements from this program, the Comptroller says. No doubt this issue will rumble on for some time!

In Pakistan, it has been announced that a taxation court is to be established for the recovery of property tax. The Sindh Minister for Excise and Taxation said that no manual challan (bill) for property tax will be issued and the problem of shortage of the staff will be resolved by rationalizing the posting of the officials and officers. He said that, in this regard, all officers have been directed to furnish sanctioned strength, working strength and shortage of staff to the Director General Excise and Taxation. He also directed staff to start the assessment of property units as per guidelines. He also ordered that guest houses should be brought into the tax recovery and the same would be done for commercial units and private schools as well. The Minister said that all the officers and the officials should boost their efforts towards recovery of arrears and show results in the next meeting. He expressed his resentment over the complaints regarding the non-availability of the staff in their offices and asked the DG Excise and Taxation to ensure their presence in their respective offices, adding that he should take action against those who did not comply with the orders. He emphasized upon the officers that they should personally visit the areas in their jurisdiction to detect and bring the un-assessed property units into the tax net. He said, "No one is above the law and we are supposed to achieve the target in the interest of government revenue generation and should work hard to fulfill our duties." On this occasion it was also decided to establish a taxation court for improvement in the recovery of property tax.

In Egypt, Parliament has approved the final amendment of real estate tax law. The House of Representatives approved in its plenary session a final draft law submitted by the government on the amendment of some provisions of Law No. 196 of 2008 issuing a tax law on real estate. The amendment states that "the text of Article (1) of Article 9 of Law No. 196 of 2008 issuing the Tax Law on Built Property shall be replaced by the following text: The bound tax shall be due to the first estimate as of July 1, 2013, and as of January 1 of each year, in accordance with the provisions of the law; this estimate to be continued until the end of December 2021." The amendment aims to give the Real Estate Tax Authority an opportunity during these two additional years to carry out the inventory of built-up properties subject to the provisions of this law, and to put the new five-year estimate for that value. Egypt has begun a campaign to get real estate declaration in order to generate taxes on real estate buildings. In real estate taxes, the units are divided into four categories. Units that are finished and occupied; units that are finished and non-occupied; units that are unfinished but occupied such as units rented like garages or storehouses; and units that are unfinished and unoccupied. All have to pay except for the last category.

In South Korea, some property assessed values are set to increase by as much as 100 percent. Property taxes are expected to jump in 2019 as land prices increase and as the government changes the way it assesses property, in some cases doubling the recorded value of these assets. In Myeong-dong, central Seoul, which has the most expensive land in the country, assessed values are expected to surge 100 percent, while for high-end houses in Hannam-dong, Yongsan, assessed values are seen rising roughly 50 percent. According to the Ministry of Land, Infrastructure and Transport, the value of the Nature Republic store in Myeong-dong was assessed at 91.3 million won ($82,000) per square meter last year. But this year, the same location will be assessed at 183 million per square meter. The land where the cosmetics store is located has been the most expensive in the country since 2004. In recent years, the assessed value has been rising 3 to 6 percent annually. The government assessed the property at 83.1 million won per square meter in 2016, 86 million won in 2017 and now 91.3 million won. It's not only land in Myeong-dong or in central Seoul facing such dramatic revaluation. The assessed values of housing units in Hannam-dong, an affluent neighborhood in Seoul where many corporate heads and celebrities reside, are expected to increase more than 50 percent on average. The rise in the market values of land and apartments is one reason for the change in the assessed values. According to the Korea Appraisal Board, in 2018, the value of homes in Seoul had increases of 5.75 percent as of November, which is the sharpest increase since 2008 when values rose 10.63 percent in the same period. The average value of homes nationwide is up 3.29 percent during the same period, the fastest increase since 2004. The government has also announced its intention to change the way it calculates values. Until now, the government-assessed value was only 50 to 60 percent of the actual market value of a property, but the government wants to take that to 80 percent of the actual market value.

In Greece, thousands of property owners face the prospect of higher taxes due to sweeping changes that are being introduced in 2019. Starting on January 1, the cost of property transfers went up, as the tax charges are now calculated according to the new rates used for tax purposes - known as objective values - that were drawn up earlier last year and go into effect in 2019. The same applies to all charges on properties that are based on the taxable rates. There is a 10 percent average reduction to the Single Property Tax (ENFIA) planned for 2019, but that is likely to be offset by a new adjustment of objective values in the summer. The objective values that applied from the summer of 2018 to the ENFIA dues will now also apply to all other property charges as of January, including stamps and duties on sales, parental concessions, etc. Therefore, any property transactions in the 3,792 zones in Greece where objective values are going up in 2019 will also be charged higher transaction rates. Valuers will shortly start drafting fresh objective values which will concern 10,000 zones across the country and apply to the 2019 ENFIA and the 2020 property levies; the changes may well affect not only the zone rates but also the commercial rates of the areas. The Finance Ministry also intends to revise the way the objective values are determined by amending the coefficients of age, facade, level, etc., so as to come as close as possible to the actual market value of a property, combined with supply and demand in the real estate market. This means that the next couple of years will also see significant changes to the Single Property Tax and other charges calculated against the objective values. As for the ENFIA of 2019, more than 7 million owners will get their new slips online in August. Those with property worth up to 60,000 euros will see a tax reduction of up to 30 percent, but those with bigger properties cannot expect a discount greater than 100 euros. No reductions should be expected by owners of mid-range properties of 200,000 euros or more, while even the owners of smaller assets who will enjoy a reduction may see that evaporate if their property is located in one of the zones whose objective value will go up in the summer.

In Israel, it is reported that residents in Tel Aviv renting out their apartment in excess of three months per year will be subject to a special rate of municipality tax. “The proposal was made in light of the sharp rise in the number of Airbnb apartments rented commercially for long periods in the city,” the council said, adding that the rental service had damaged the quality of life for permanent residents and caused rental market prices to rise. According to the proposal, residents renting out their apartment in excess of three months per year will be subject to a special rate of municipality tax, comparable to hotel taxes which can be four times as expensive as regular taxes. In excess of 8,000 Tel Aviv apartments and rooms are currently offered on Airbnb, similar to the number of hotel and hostel rooms in the city. In November 2018, the Israel Hotel Association demanded that the Tax Authority take action to collect and better enforce statutory tax requirements for short-term Airbnb rentals. The association argued that the industry currently encourages tax evasion and constitutes unfair competition for hotels.

And finally, there has been a great deal of publicity and controversy surrounding the Local Property Tax in Ireland. This is the self-assessed property tax that applies to residential properties. A recent article mentioned the name of the person who heads up the Revenue’s Local Property Tax section; it stated that her name was “A Looney”. Initially, I thought this must be a wind-up by the newspaper, but I checked and it is correct. Now, no-one can help the name they are given by their parents and I have come across many examples of people with “interesting” names such as a tax inspector in the UK who was called “Mr Money”, a solicitor in London whose first name was “Milor” and, perhaps best of all, a former Lord Chief Justice of England and Wales called “I Judge” - the “I” being for Igor. However, some might say that putting “A Looney” in charge of a controversial property tax is simply asking for trouble!

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