PRESIDENT'S MESSAGE

July 2019

I am writing this newsletter having recently returned from IPTI's Annual Conference (our Mass Appraisal Valuation Symposium) which was held in a hotel overlooking the beautiful Lake Bled in Slovenia. We had a packed programme and it was a very enjoyable and successful event with 30 countries represented.

It would be unfair to single out any individual presentations from the 45 speakers we had at the conference, but it may be helpful to highlight a few of the wide range of topics that were covered. Obviously, we had a significant input from local speakers about the issues concerning the property tax system in Slovenia which continues to face pressure from politicians and others who seem to be less than supportive of bringing the system up to date.

We had a number of very interesting presentations covering issues in various other European countries including the property tax reforms taking place in Germany and the latest developments in property tax systems in the Czech Republic, Denmark, Moldova, the Netherlands, Romania and the United Kingdom. Speakers from further afield around the globe brought us up to date with what is happening in Australia, Canada, Hong Kong, Indonesia, Mexico, New Zealand, Poland, Russia, South Africa and Vietnam.

Inevitably, we spent some time looking at the technology which supports property tax systems, including automated valuation models, along with issues concerning big data, machine-learning and the use of artificial intelligence. In this connection, we had a very lively presentation from colleagues working at the Property Valuation Services Corporation (PVSC) in Nova Scotia highlighting their experiences in working with artificial intelligence which is clearly the direction of travel for the mass appraisal industry.

Whilst we were in Slovenia, we held a meeting of IPTI's Board of Advisors which, among other matters, discussed the COST-IPTI International Property Tax Scorecard which is now available on IPTI's website (www.ipti.org). The latest Scorecard is titled "The Best (and Worst) of International Property Tax Administration" and contains the outcome of research carried out by the Council on State Taxation (COST) into the 50 US States - along with Washington DC and Puerto Rico - and IPTI's research into a total of 27 jurisdictions from around the world including Australia, Canada, Hong Kong, Ireland, New Zealand, Singapore, South Africa, Spain, the Netherlands and the United Kingdom.

If you have not yet had chance to look at the Scorecard, I would urge you to do so by visiting our website.

Moving on, in the UK, the Parliamentary Treasury Select Committee is continuing its inquiry into the impact of business rates (the UK property tax paid in respect of non-residential properties) on businesses. The Committee's Terms of Reference are as follows:

"The inquiry will look at how changes in Central Government policy have changed the business rates system. In turn, this inquiry will also look at how the current business rates system is operating and the associated impact on business.

The inquiry will cover the following:

The impact of changes in Business Rates policy since 2017 on businesses, in particular:

- the changes in reliefs and allowances

- the ability of businesses to pay

- The relationship between Business Rates and the behaviours it drives in business.

How the current Business Rate system measures up against the following pillars of good tax policy:

- Fair

- Support growth and encourage competition

- Provide certainty

- Be coherent.

The economic justification for a property-based business tax:

- The impact of Business Rates on rental prices

- The impact of Business Rates on property prices

- Alternatives to property-based business taxes, such as the proposed digital services tax

- The problems associated with property-based business taxes

- The impact of changes (proposed and actual) of Business Rates on Local Authorities and Councils, and the High Street."

It will be seen from the above that the Committee has fairly wide-ranging, and topical, terms of reference and the inquiry has attracted a great deal of interest. A total of 123 written submissions were made to the Committee and, so far, the Committee has held 4 oral evidence sessions. These oral evidence sessions are televised and make for interesting viewing – for anyone interested in property tax! The Chair of the Committee has sent an open letter to the CEO of the Valuation Office Agency (VOA) seeking data about the number of appeals, staff cuts, etc., in advance of the oral evidence session that will involve the VOA. At this stage, we don't of course know what the Committee will recommend, but it should be interesting.

Looking back over June, I am pleased to say that we have had a number of new projects and other activities keeping us busy. We are also continuing to work on existing projects that cover a wide range of subjects including property tax policy, property tax administration, assessment policy and practice, and the use of modern technology. In addition, we are involved in various education and training initiatives that will prove to be of real value to property tax professionals.

Also, during June, we held another in the series of webinars we deliver jointly with the Institute of Municipal Assessors (IMA). The latest IMA-IPTI webinar was on the topic of "Determination of Equitable Assessments - Value and Equity Considerations". In most jurisdictions, the assessment of property for tax purposes is based on market value. However, having made a determination of market value, the principle of equity may need to be considered, i.e. the valuation assessment should be equitable with that of similar properties in the vicinity. In some cases, this requirement may lead to a determination that the assessed value is lower than the market value of the property. Although this requirement might seem to be relatively straightforward, assessors, taxpayers and their representatives sometimes struggle with this concept. In this webinar, two experienced presenters discussed how to deal with these issues. The webinar was well-attended and received a very positive response from those who participated.

Another event at which I spoke during June was the RICS Planning and Development Conference held in London, England. The conference included a panel discussion on "Land Value Capture" (LVC) which involved three presenters, one of which was me, talking about different aspects of LVC. I focussed on the political and practical challenges associated with LVC and I am pleased to say that the audience were fully involved with the topic and we had a lively debate. We are in discussion with the RICS about holding another event on LVC as a follow-up to the round table discussion we held earlier this year.

Looking ahead, we are running a four-day workshop in Sao Paulo, Brazil entitled "Practical Applications of Valuations for Property Tax Purposes" on August 6th - 9th, 2019. This course has been developed to train professionals who work in public bodies valuing real estate for property tax purposes. We will be working with colleagues based in Brazil on all aspects of the assessment process including data collection, analysis and management of databases, development of mass appraisal models, validation and performance analysis, alternatives for the simplification of valuation methodology, and implications arising from the reassessment of real estate in fiscal policy.

Looking a little further ahead, we will be participating in the annual Property Tax Workshop run by COST (our Scorecard partners) in Las Vegas on 30 September to 2 October. Following that, we have our annual RICS-IPTI Caribbean conference in the Bahamas on 31 October and 1 November.

And we will be rounding the year off with our Australasian Property Tax Summit in Melbourne, Australia on 14-15 November. This promises to be a really interesting and informative event for local government.

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.

An interesting headline from the USA recently caught my eye; it stated, “After 40 years, let’s finally reform Proposition 13”. It was written by a man who was working as a staffer in the Legislature when Proposition 13 passed 40 years ago; he said it brought about a seismic shift in governance in California. Suddenly, local government, schools and the state had to contend with budget cutbacks. Anti-tax ideology became part of California’s Constitution with new two-thirds vote requirements for tax increases. And Proposition 13 set the tone nationally for the Reagan years and many subsequent years of fiscal austerity. He went on to say that, a decade later, as director of the California Tax Reform Association, he set out to examine its impacts. Homeowners were protected, the point of the measure. Local governments and schools had significantly cut back employees, budgets, infrastructure and services, as supporters may have intended. But, he said, one surprising fact jumped out, emphasized in his report in 1991: business property was a huge winner, gaining massive tax reductions which had nothing to do with the reason for Proposition 13. He went on to say that, in the 1990’s, he participated in consensus-building discussions on how to solve California’s deepening fiscal problems. But one rule of the discussion was that reforming commercial property taxes was off the table. Later, business defeated a legislative effort to simply examine the issue, which they said would lead to split roll, as they called it. He said businesses and their representatives had good reason to avert their eyes. Companies were - and are - paying taxes based on land values from 1975. Commercial property based on low assessed values can use loopholes and pass property on to heirs to maintain those low taxes forever. Business knew that discussion could reach only one conclusion: there was no rational way to defend these massive tax breaks. In the 2000s, the Tax Reform Association continued to document the failures in the system. They documented what they described as the abuses of the loophole-ridden law, and the shift in the property tax burden away from commercial property and on to residential property in virtually every county. Massive disparities in property taxes developed for otherwise similar hotels, shopping centers, office buildings and high-tech industrial property. In this decade, researchers at USC determined that this system cost cities, counties, schools and special districts $11 billion in lost revenue annually. The failure to reassess land has, he says, rewarded sprawl and speculation, with miles of vacant and underutilized land in our commercial strips. School funding in this supposedly advanced state is far below the rest of the nation. He finishes off by saying, in 2020, 42 years after Proposition 13’s passage, voters will have an opportunity to reform property taxes for commercial and industrial property. The measure will:

- Provide for regular reassessment of commercial and industrial property.
- Distribute revenue to cities, counties, and school districts consistent with the current property tax.
- Eliminate the property tax on business equipment for small business.
- Reaffirm Proposition 13’s protections for all residential property.

Many will no doubt be awaiting the outcome of this process with interest.

In Greece, recent research appears to show that property taxes are among the highest in Europe. Using data from the OECD, researchers examined the tax burden on ownership and its ratio to tax revenues of properties in Greece and found that Greek property owners were among Europe’s most heavily burdened by taxes. The study found that most countries - both in Europe and globally - have a particularly low ratio of property ownership taxes to total tax revenues averaging at 4.6 per cent of all tax takings in the EU. In Greece, the figure was at 8.1 per cent. At the other end of the spectrum, Estonia collects just 0.7 per cent of its tax takings from property, followed by Austria, Lithuania, Slovakia and the Czech Republic where the number ranges between 1.3 and 1.4 per cent. Greek property taxes had particularly risen following 2007, when the rate of Greece stood at 5.3 per cent against the OECD member average of 5.5 per cent. Since then, the Greek ratio has risen to reach 8.9 per cent in 2013 with the imposition of EETIDE, the property tax collected through power bills. The single property ENFIA tax has also meant a 68 per cent increase in the ratio of property taxes in Greece within just six years. The ENFIA load was somewhat eased up during the government of Antonis Samaras when it was reduced to 8 per cent; however, it had grown to 8.4 per cent under the government of Alexis Tsipras in 2004 despite his pre-election promises of eradicating ENFIA, which was initially introduced as a one-off tax burden. In a new promise made prior to the July 7 Greek government elections, the SYRIZA government has pledged an average ENFIA reduction of 10 per cent for this year.

In the Philippines, provinces and cities are said to be losing an estimated P30.5 billion in total foregone revenues as a result of outdated real property values, underscoring the need for valuation reforms in the real property sector, according to the Department of Finance (DOF). The Acting Deputy Executive Director of the DOF’s Bureau of Local Government Finance (BLGF) said cities could have collected as much as P23.077 billion in incremental revenues from real property taxes, while provinces could have got as much as P7.379 billion more if their Schedule of Market Values (SMVs) were already updated and in sync with international standards. Such reforms in the real property tax system constitute Package 3 of the Duterte administration’s comprehensive tax reform program (CTRP). The Finance Secretary said these reforms will further invigorate the real estate market, bring in more investments, and generate additional revenues for local government units (LGUs). “Essentially, real estate is the most valuable asset and biggest financial resource. But its contribution to government revenues, particularly for local governments, has remained dismal due to outdated SMVs, poor collection efficiency and tax administration and lack of uniformity in the valuation of real property,” he said. He noted that only 36 percent of LGUs have updated SMVs. The rest, which comprise 97 cities and 48 provinces, remain non-compliant on updating their SMVs, he said. He also said that, under this outdated system, overvaluation usually happens when the government pays for a piece of real property, but undervaluation often occurs when it is the government’s turn to collect. The system is also riddled with multiple overlapping functions as 23 national government agencies can or are required to do valuations, with each using its own system and methodology, he said. This has led to disparities between market values and zonal values by 13 percent to as wide as 94 percent. Between the SMVs and private valuation, the disparity is from 187 percent to 7,474 percent. He stated that the following reforms are being proposed by the DOF: 1) adoption of international standards in valuation; 2) establishment of a single valuation base for taxation and benchmarking; 3) the need to insulate valuation from politics, with LGUs continuing to regulate tax rates and assessment levels; 4) improvements in the oversight functions of the national government; and 5) setting up of a comprehensive electronic database to support valuation functions.

In Australia, a top government adviser says replacing stamp duty with a broad-based property tax would be political suicide, but experts say it would leave Australians $17 billion better off. The controversial policy would mean homeowners who have recently shelled out tens of thousands of dollars would need to pay yet more tax on their property and would place an additional burden on asset-rich, income-poor pensioners. While it will always be a difficult political sell, a Grattan Institute research fellow said now was a good time to make the change. “The housing downturn means that the revenue hole you would need to fill after abolishing stamp duty is smaller”, he said. “Abolishing stamp duty would relax the deposit hurdle quite a bit, and [therefore] encourage more people to get into the housing market.” Annual flat property taxes of between 0.5% and 0.7% would be enough to replace stamp duty revenue in all states, according to the Grattan Institute. It said stamp duty - levied at the time of purchase - makes people far less likely to move towards areas of high employment and replacing it with a broad-based property tax would lead to productivity gains worth $17 billion. “Stamp duty is the most economically costly tax that state governments levy,” he said. “It makes it more expensive to move home to take on a new job, which encourages people to stay put.” There is a growing chorus of government advisers, researchers and economists urging state governments to replace stamp duty with a broad-based property tax. Following significant falls in stamp duty revenues recorded by state governments, those voices have grown louder - arguing that a broad-based property tax would be less susceptible to booms and busts (making forecasting and budgetary planning far simpler for states) and that it would encourage a more efficient allocation of housing. The transition to a new arrangement would however be fraught with challenges - an overnight change would be met with fierce resistance from existing homeowners, as it would mean asking those who have already paid stamp duty to pay yet more tax on their property. The answer lies, according to a University of Tasmania political scientist, in a gradual transition from stamp duty to property tax spread over 20 years. He recommended a four-stage transition that begins with developing consistent methods for residential property valuation. The next step would be temporarily simplifying stamp duty to a single flat rate of 6 per cent, levied only on properties above a certain threshold. That stage would last one to three years, after which a stamp-duty surcharge would be applied to top-end and investor purchases for roughly two years. This would “help meet housing policy goals by dampening demand for investment properties and increasing home ownership rates”, without affecting revenues, he said. The final stage in the plan would be to gradually reduce stamp duty and simultaneously increase property tax over a fifteen- to twenty-year period. It will be interesting to see how this debate plays out.

And finally, regular readers of this newsletter will be aware that I have, over the years, drawn attention to what I think is a rather stupid aspect of the UK property tax system. At present, public toilets are included in the UK non-domestic rates system. Although this system is often called “business rates”, it has never been clear to me what kind of business is carried on in public toilets! Worse still, because local governments have to pay rates (to themselves!) in respect of these facilities, many have closed them down to save money. This, of course, leads to major inconvenience to the public who need to use them. At last, the UK government has seen sense and published a new piece of draft legislation - the Non-Domestic Rating (Public Lavatories) Bill - which will lead to their exemption. Assuming this legislation is brought into effect, I have to say that I feel “flushed with success” in, perhaps, helping to right this wrong!

Paul Sanderson

President, International Property Tax Institute