International Property Tax Institute
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PRESIDENT'S MESSAGE

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I read a very interesting article recently with the headline "City governments worldwide cannot deliver sustainable cities alone". It referred to a recently published report which said, in summary, that national governments must step in to help towns and cities finance much-needed infrastructure.

The report states that there is a desperate demand for investment in urban infrastructure. At least a billion city dwellers worldwide lack access to safe drinking water, decent housing or reliable electricity. In addition, the global urban population is projected to grow by a further 2.5 billion people in the next thirty years, all of whom will need shelter and services.

This human crisis is now pressing dangerously against a climate emergency. The report states that the world needs to achieve net-zero emission cities by mid-century, or runaway climate change threatens to make the world near uninhabitable. All of this new infrastructure must therefore produce a minimal amount of greenhouse gases in its construction and be carbon-neutral in its operation.

This is a challenge for architects, engineers, planners and property developers - but perhaps the first and foremost for financiers. The most conservative estimates suggest that around $5tr is needed every year to deliver low-carbon, climate-resilient infrastructure in cities. Where will this money come from?

Many city governments, the report indicates, have miniscule budgets. Municipal budgets are often smallest in the places where the need for capital investment is highest: Kigali in Rwanda has $40 to spend per person each year; Dakar in Senegal has US$22; and Accra in Ghana has $13.

Even though city governments can do much to improve their revenue collection, even in richer countries, very few governments finance new infrastructure entirely through current public revenues. They use instruments such as debt financing, public-private partnerships (PPPs) and land value capture to crowd in private investment. Mexico City, for instance, is using municipal bonds to pay for energy-efficient streetlights, while Hong Kong's metro system has been largely funded by land value capture.

These financing instruments offer many advantages but aren't used as widely as expected. Why? The report states that infrastructure projects do need to be 'bankable' to attract private finance; that is, investors need to be confident that they will recover their money and make a profit. Consequently, there is much work focused on designing and structuring projects so that they are commercially attractive.

Unless all of these conditions are in place, private investors will hesitate to lend to city governments. Yet city governments cannot overcome these barriers alone and require support from national governments.

On property taxes, the report states that clearly linking property taxes to service delivery is a way to enhance accountability and offset political resistance to the most visible taxes. Property taxes can also be designed to incentivize more compact, connected, and coordinated urban development although, too often, they are designed in ways that favour sprawl. The report states that urban sprawl is generated by interactions between zoning rules and property taxes, as luxury housing moves outside formal city boundaries to take advantage of lower tax rates, and cities try to extend their jurisdictions. This problem is magnified when cities rely on land sales to generate revenues, as China has done since the early 1990s.

The report sets out a two-step framework to illustrate how they can systematically strengthen their urban finance system. First, it falls primarily to national governments to create an efficient tax system where every level of government has enough resources to meet current spending needs and enable investments that can sustain longer-term economic growth. National governments can design income taxes, carbon taxes, property taxes and other instruments to systematically promote more equal and sustainable cities.

Second, national governments are largely responsible for establishing the overarching frameworks that allow local governments to use debt finance, PPPs and land value capture. National governments need to establish comprehensive land registries, robust accounting standards and clear legislation articulating what city governments can and can't do.

Where local governments are too small or too poor, national governments may have to play the leading role. The report states that even the City of London - one of the richest and most empowered city governments in the world - has partnered with the national government to finance the major CrossRail project. The presence of this wider set of institutional conditions is fundamental to private investors' consideration of a city's readiness for their investments.

Perhaps most crucially, national governments can commit to strengthen local governments. Countries need effective local governments who can fulfil their core responsibilities, even if that is only collecting garbage, filling potholes and collecting parking fees. But local governments cannot do their jobs unless they have enough staff and budgets. They certainly cannot fill the massive financing gap without supportive national governments.

The cities of the future will succeed or fail based on the infrastructure investments made today. National governments will need to work much more closely with local governments if they are to secure long-term prosperity and avoid dangerous climate change.

An interesting article and report which advocates the importance of strengthening local governments with, inter alia, enhanced property tax systems and the use of land value capture mechanisms. These, of course, are two of IPTI's core areas of expertise and I hope that the report - which is titled "Scaling up investment for sustainable urban infrastructure: a guide to national and subnational reform" - obtains a favourable reception around the world and is acted upon by national governments.

Looking back over July, one of the interesting events I was invited to attend was an “Innovation Lab” held in Belfast and run by the Department of Finance in Northern Ireland. The “Lab” brought together key stakeholders in the business rates system (rates are the property tax paid by occupiers of non-residential properties) to discuss a number of current issues and, more importantly, possible solutions to those issues. It was a very interesting event with some “lively” discussion from time to time on various topics, including how to make towns and cities places where people want to live, work, visit and do business.

I was also involved in another visit to Ireland during July where, among other meetings, we had a discussion in Dublin with a senior official from the Irish government who was very interested in the project we are working on with the Irish Valuation Office. This project is making good progress and, all being well, will come to fruition later this year.

We also spent time during July working on a number of other projects including the development of education and training material and advice on new technology being introduced to support property tax systems in some jurisdictions. We also started work on a new benchmarking project which will involve a number of valuation agencies around the world and should produce some interesting findings.

Looking ahead, we are running a four-day workshop in Sao Paulo, Brazil entitled “Practical Applications of Valuations for Property Tax Purposes” from 6 to 9 August. 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, individual property valuations, validation and performance analysis, alternatives for the simplification of valuation methodology, and fiscal policy implications arising from the reassessment of real estate.

Looking a little further ahead, we will be participating in the annual Property Tax Workshop run by COST (our International Property Tax Scorecard partners) in Las Vegas from 30 September to 2 October.

Following that, we have our annual RICS-IPTI Caribbean conference in the Bahamas on 31 October and 1 November. The brochure for the Caribbean conference is now available on our website.

On 5 November we are holding a one-day workshop in Ontario - in partnership with the RICS - on the “Principles and Challenges of Property Assessment and Taxation”. The aim of this workshop is to explain the evolution of assessment and property taxation in Canada; identify the need for clear assessment and taxation policies; discuss issues associated with this form of taxation; stimulate discussion and offer possible solutions to the challenges faced by stakeholders today. We will also be delivering this workshop in Vancouver on 21 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 and others involved in property tax; details of the programme are now available on our website.

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 California, the same piece of legislation has governed property taxes for both homes and commercial properties for over four decades. A new state ballot initiative threatens to snap those two groups apart. Since 1978, Proposition 13 has limited property tax to 1% of a property's cash value and has capped yearly increases to 2%, no matter whether the asset in question is a single-family home, an office building, a factory or a piece of vacant land. Properties are only revalued when they change hands. In November 2020, Californians will determine whether to change the existing property tax system to create a split-roll for commercial and industrial properties. If voters choose to split the state's tax rolls, it could cost California commercial owners an additional $11.4B every year in property taxes. Prop 13's supporters argue that the law made California's economy hum through the 1990s and 2000s. Now, companies are fleeing California in favour of states like Texas with more business-friendly tax codes. They say splitting the tax rolls could be the last nail in the coffin for California. Opponents of the law say Prop 13 has created inequities between properties that change hands often - such as single-family homes - and commercial properties, some of which may still be paying property taxes calculated from 1970s-era valuations. Up until 1978, California revalued real property every few years, as many states do today, and local governments set their own tax rates. A period of economic stagnation, as well as corruption in local tax assessors' offices, bred calls for reform in the 1970s. Relief came in the form of Prop 13, a ballot initiative for a unified property tax assessment system. The measure was passed by a wide margin; nearly two-thirds of the votes cast were in favour of the new law. "Historically, most politicians have avoided split-roll measures because a two-thirds majority is required to update tax law and since Prop 13 is still widely popular," one commentator said. "However, recent polls suggest growing support for a split roll." Under the proposed split-roll system, commercial properties would be revalued every three years, rather than just at their transaction dates. Small businesses with fewer than 50 employees would be exempt from these measures. Opponents of the split-roll initiative include businesses, commercial property owners and many elected county tax assessors. They argue that a dual system will not just shift market forces and deter economic growth, but also increase complexity and administrative costs. For California's business community, the stakes are very high. The exodus of companies so far has included automotive and pharmaceutical companies, medical device manufacturers, food processors and small businesses.

In Alberta, Canada the provincial government will offer tax relief this year for shallow gas producers suffering from a "broken" assessment system. The province said it would be reducing municipal taxes on shallow gas wells and pipelines by 35 per cent, effective this tax year. The province would pay for that one-time reduction. "It's well established that the natural gas industry is in bad shape, particularly when gas is selling at a negative price," said a government official. "We looked at the situation and said that everyone agrees that the assessment system is inaccurate and so we're going to act now to bring that down to what we think the true level should be and then we'll commit to a proper full review of that system for the next municipal tax year." The problem with the assessment system is that it is valuing assets "higher than they should be," the official said. The government would offset the revenue shortfall by reducing the amount of education tax required to be sent to the province by an equivalent amount.

In the UK, local authorities should be given the freedom to impose higher council taxes (local property tax for residential properties) to help cope with the unprecedented funding crisis facing social care services after a near decade of austerity, the chair of the Local Government Association (LGA) has said. He urged ministers to inject billions of pounds into adult social care and give councils more control of local health services to protect elderly and disabled people and give them the support they needed. “It is a measure of a good society how well it treats its most vulnerable,” said the councillor. Reflecting increasing concern over the impact of the reductions, he called for major extra investment in children’s social care, a reversal of cuts to Sure Start-style early-years family support services and a review of special educational needs services funding. His comments reflect a growing cross-party consensus at local level that national government has little grasp how continuing austerity cuts are hurting local communities and putting people at risk. Last month, the LGA warned that vulnerable people would die because of social care cuts. The LGA warned earlier that the deteriorating outlook for council finances would see a fifth of authorities forced to impose drastic controls on spending this year to avoid insolvency, while a third of councils would struggle to deliver statutory services within three years. The chair said that councils in England had lost 60p out of every £1 of central government funding since 2010, while the number of new child protection investigations had doubled, there had been a 56% increase in homelessness and the number of older people aged over 85 had increased by a third. An annual survey of council leaders, chief executives and finance directors revealed that more than half believed that some authorities would get into serious financial difficulty or fail to deliver core services at some point over the next year.

In India, the first survey of properties in state using unmanned aerial vehicles (UAVs) was launched in Pune district this month. This is the largest such exercise in the country using drones to map spatial information. It will give out firm property titles to residential and other properties in around 40,000 villages, helping residents gain better liquidity on these assets. The survey was conducted in two villages - Pimpri Sandas and Nhavi Sandas in Pune's Haveli taluka - using a drone fitted with a high-resolution camera. Next, authorities will launch the project in Satara (Maan and Khatav talukas), Aurangabad (Aurangabad taluka) and Pune (Purandar taluka), with plans to cover 25 villages in the period. “This will cover sites across Maharashtra, except in Konkan, where it will be carried out post-monsoons due to inclement weather. Compared to the conventional system, this takes just two days of preparatory work and a few minutes for the drone survey,” said a senior official from the settlement commissionerate and department of land records. After this aerial survey, the data will be verified on the ground, and suggestions and objections will be called. An inquiry will be conducted before demarcating the boundaries of properties. The process will culminate with the grant of sanads (ownership documents). It will generate formal ownership records of 1.4 crore properties, ensure land-use planning, create liquid assets for villagers on properties worth thousands of crores, resolve disputes and help move towards clearer land titles. The project will use GIS-based technologies and prevent encroachment on government lands by demarcating their boundaries. The official said the project would be self-sustaining as it would recover the costs from property owners as fees for grant of sanads. The land records will be geo-referenced and digitised and the mapping will make planning easy for government agencies. Other benefits include better planning of infrastructure projects, scientific valuation of land and updated property tax records. The project will also include the establishment of 400 continuous operating reference stations (CORS) for better GPS accuracy of up to 10cm. The official said by the end of September, they planned to deploy 20 drones.

In Ireland, when the local property tax (the annual tax on residential properties) was first introduced back in 2013, an exemption was offered for first time buyers. The government has now written to homeowners who purchased a property in 2013 asking them to verify that they should be entitled to an exemption from local property tax on the basis that they purchased the property that year. Some 11,500 homeowners in this cohort have been enjoying an exemption from the tax since this date, thus saving themselves thousands of euro. The exemption was introduced in 2013 to stimulate demand among first-time buyers but was subsequently extended to all buyers in that year. Purchasers of new homes since then have also benefited from the exemption. The exemption is due to end this year, which means that such buyers will find themselves subject to the tax for the first time from 2020, when a new valuation date is due to be introduced. However, ahead of this, the government is seeking to verify that exemptions have been claimed appropriately and is asking homeowners to verify both the date of purchase of the property, and that it is being used as their sole or main residence since this date. Homeowners have been given 28 days to respond to the government with the required documentation.

In China, a draft law covering the existing land appreciation tax (LAT) will extend the current four-tier tax system and bring real estate built on collectively-owned land within the scope of taxation. The draft shows the country's resolve to curb property speculation, and it provides supplementary regulation of rural collectively-owned land that will be transferred into the housing market, according to analysts. China has been encouraging some rural collectively-owned land to be developed to housing projects in recent years. According to the draft law published by the Ministry of Finance and State Taxation Administration in July, the LAT will apply to collectively-owned land in cases where usage rights are transferred. But the start of the legislative process for the LAT, which is also seen as an anti-profiteering tax, has raised concerns in the property sector. Some worry that the LAT will squeeze profits on houses that are being resold, and that multiple homeowners could be heavily taxed. Public feedback on the draft is being accepted until 15 August, according to a notice on the website of the Ministry of Finance.

And finally, in Springfield, the state capital of Illinois, USA, it has been reported that a strip club is paying less property taxes than a nearby pizza parlor. According to a local newspaper, this has apparently caused many people to ask, “How can that happen?” The newspaper seeks to answer that question by helpfully explaining that “Every building has a property tax. Some, however, have different tax values.” It goes on to say, “So that's one of the reasons why an adult entertainment club pays about three times less than pizza parlour.” I am not sure that explanation is going to fully satisfy those who have queried the situation. Surely, it would be better for the newspaper to send one of its reporters down to the location and carry out some in-depth research into the issue. This may mean having to wade through rather a large amount of pizza and having to sit through various shows at the strip club to really “unveil” the facts and get to the “bottom” of the problem. If the newspaper is not sufficiently motivated to do that, perhaps it is a project that the IPTI President should personally take on!

Paul Sanderson

President, International Property Tax Institute