International Property Tax Institute

PRESIDENT'S MESSAGE

September 2019

The New Zealand Productivity Commission has issued a draft report on "Local Government Funding and Financing" which makes for interesting reading. However, as it runs to 306 pages, it is not recommended for the faint-hearted! It requests feedback on the various recommendations it contains.

By way of background, the New Zealand Government stated that it wanted to know whether the existing funding and financing arrangements are suitable for enabling local authorities to meet current and future cost pressures. The report states that local government matters a great deal to communities and the wellbeing of New Zealanders. High-performing local government can provide greater access to housing; better protection of New Zealand's natural environment and cultural values; strong, engaged communities; and quality infrastructure at the right time in the right place.

It goes on to state that, if councils struggle to deal with rising costs, or are not incentivised to improve their performance, communities are unlikely to reach their potential. The funding and financing framework for local government must incentivise good performance and enable local authorities to deliver quality amenities and services that reflect the preferences and aspirations of their communities.

The report found that the current funding and financing framework is broadly sound. Local authorities currently have a wide range of funding and financing options, which gives them considerable flexibility in how they raise revenue. It found that the current system, based on rating properties, is simple and economically efficient compared to alternatives such as local income taxes. Wholesale change to a radically different model would be expensive, disruptive and uncertain the report found. The current system should therefore remain as the foundation of a fit-for-purpose future funding and financing system for local government. However, the report states that councils need new tools to help them deal with some specific cost pressures.

Changes are needed to strengthen governance and increase the transparency of council performance. The report states that all councils should have an assurance committee that is independently chaired and the legislative requirements for councils' long-term plans should be clarified and streamlined. In addition, the report found that the current performance reporting framework for local government is not fit-for purpose. It requires fundamental review, aimed at significantly simplifying and improving the required financial and non-financial disclosures.

The Commission favours the “benefit principle” as the primary basis for deciding who should pay for local government services. That is, those who benefit from (or cause the need for) a service should pay for its costs. Councils may also use “ability to pay” as a consideration, taking into account central government’s primary role in income distribution. Where local services also benefit national interests, central government should contribute funding. User charges or targeted rates should be used wherever it is possible and efficient to do so.

The report indicates that there is little or no evidence that rates have generally become less affordable over time. However, legislative changes are needed to make the current funding system more equitable and transparent, including changing rating powers to give more prominence to the benefit principle, phasing out the current rates rebate scheme (which is not equitable or effective), and introducing a national rates postponement scheme.

The Commission identified four key areas where the existing funding model is insufficient to address cost pressures, and new tools are required:

- supplying enough infrastructure to support rapid urban growth;
- adapting to climate change;
- coping with the growth of tourism; and
- the accumulation of responsibilities placed on local government by central government.

It found that these pressures are not distributed evenly across councils, because they face widely differing circumstances. In addition, small rural and provincial districts are facing particular challenges in funding essential infrastructure and services. These councils need to be open to scalable new technologies and alternative organisational arrangements. They may also require support from central government to make the necessary investments.

The report looks at new funding and financing tools for growth infrastructure. It states that the failure of high-growth councils to supply enough infrastructure to support housing development has led to some serious social and economic problems. Councils currently have funding and financing tools to make growth “pay for itself” by ensuring revenue for new property developments is derived from new residents rather than existing ratepayers. However, the long time it takes to recover the costs of development, the risks involved, debt limits, and the continued perception that growth does not pay for itself are significant barriers.

The Commission has previously recommended a new “value capture” funding tool for councils. This tool would raise revenue because property owners who enjoy “windfall gains” in their property value as a result of nearby publicly-funded infrastructure investment would be required to pay a portion of this gain to the council. Such a tool, combined with powers for councils to levy road-congestion and volumetric wastewater charges, would help give councils sufficient means to fund growth.

To address the perception that growth does not pay for itself, the Commission recommends considering a new funding stream from central government to local authorities, based on new building work put in place within an authority’s boundary.

The report states that adapting to climate change is a significant challenge. As the impacts of climate change unfold over coming decades, local authorities will face a significant and growing challenge. Future sea-level rise and increased flood risk from climate change directly threaten local government infrastructure such as roads and bridges, as well as stormwater, wastewater and flood-protection assets. Moreover, councils are responsible for planning and regulating development on "at-risk" land. To help local government prepare for the impacts of climate change, the report says that central government should take the lead on providing high-quality and consistent science and data, standard setting, and legal and decision-making guidance. Institutional and legislative frameworks also need to move from their current focus on recovery after an event towards reducing risk before an event.

The report says that the Government should extend the role of the New Zealand Transport Agency in co-funding local roads to include assistance to councils facing significant threats to the viability of local roads and bridges from climate change. The Commission also recommends that the Government creates a climate-resilience agency and associated fund to help at-risk councils redesign, and possibly relocate and rebuild, wastewater, stormwater and flood-protection infrastructure threatened by the impacts of climate change.

The report considers the large and rapid increase in tourism which is placing considerable pressure on several types of "mixed-use" infrastructure in popular tourist destinations such as local roads, parking, public toilets, water and wastewater. Tourists are not paying the full cost of the demands they are placing on this infrastructure. The Government should legislate to enable councils in tourist centres to implement an accommodation levy. Councils in tourist centres should also make greater use of user pays for mixed-use facilities. For small councils that cannot reasonably use either accommodation levies or user pays, the Government should provide funding from the international visitor levy.

And finally, the report states there is a need to reset the relationship with central government due to the continued accumulation of tasks and responsibilities passed from central government, without adequate funding means.

The reason for including such an extended reference to this report is that it covers so many issues that are currently topical to so many jurisdictions around the world, i.e. property tax, land value capture, tourist taxes, climate change, and the relationship between central and local government.

Looking back over August, one of the interesting IPTI events I was involved in was our 4-day property tax workshop held in São Paulo, Brazil. The workshop, conducted in Portuguese, brought together property tax professionals from both the public and private sectors located in many different parts of the country. IPTI focussed on providing inputs from an international perspective and colleagues from various parts of Brazil contributed their experience from a local perspective, in particular dealing with some of the challenges faced by jurisdictions in the country. The workshop concluded with a series of round-table discussions to address valuation and technical issues identified by the participants. Overall, the workshop was well-received by all those who attended, and participants were fully engaged in all the sessions.

Following the workshop in Brazil, I travelled to Buenos Aires, Argentina. Whilst there, I spent some time studying the property tax system(s) which operate at various levels of government in that country.

Looking 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.

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". 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 available on our website.

Looking even further ahead, I am pleased to announce that IPTI's Mass Appraisal Valuation Symposium (MAVS) 2020 will be held in Calgary, Canada in early June next year.

I am also pleased to announce that IPTI will be offering a new mass appraisal valuation training series commencing in October. 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 ACT government has rejected calls to compensate some commercial ratepayers who have experienced sudden and large increases in rates. The government tabled its response to the Public Accounts Committee's inquiry into commercial rates. It comes amid the government's ongoing tax reform agenda, which is phasing out stamp duty in favour of higher land taxes. The inquiry into commercial rates rises found ratepayers were experiencing undue hardship and anomalies stemming from fundamental problems with the tax regime. The ACT Valuation Office appeared to be making valuations on the basis of very little information and applying them across entire districts "for want of a better method", the committee report said. As a result, it recommended the government consider compensating ratepayers who experience sudden, large increases in rates because of retrospective assessments or because they were charged a rate that did not align with its current use. It also recommended commercial rates revert to 2012 levels while a taskforce looked at the overall economic impact of the rating system and tried to find ways to improve certainty and transparency for landholders. In its response, the government said compensating commercial ratepayers would be akin to asking ACT ratepayers to pay for commercial decisions made by commercial property owners, which have often increased the value of their property through lease variations. The government said rates were levied on the average unimproved value of a property, which is determined by the highest and best use of the land under the lease conditions. It said property owners could decide to adjust the lease purpose clauses to reflect more closely the land's current use. "This can include removing unutilised purposes, which may impact the Average Unimproved Value of the property and the rates payable," the response said. "Where a taxpayer considers the ACT Revenue Office has unfairly or incorrectly administered the Territory's tax laws, they have objection and appeal rights they can exercise." It also rejected a recommendation to establish an independent valuation service for the ACT and split the connection between the Revenue Office and the Valuation Office.

In the USA, a court in Maine ruled that Brunswick's tax on solar panels is legal. Several taxpayers had challenged the tax, arguing that it was arbitrary and that methods used to compute it were flawed. Brunswick did not tax solar panels until the town's revaluation in 2017, according to an attorney for the families who challenged the tax. Since the company conducting the revaluation had no formula for how solar systems should be valued, then-assessor Cathleen Jamison "decided to impose a $500 per panel assessment on all solar panels within the Town … based solely on 'online research' that included no Maine-specific publications," the brief states. After some solar panel owners sought abatements, the per-panel assessment was reduced to $200 each. For the seven property owners the attorney is representing, abatements ranged from $82 to $174, The Times Record reported last year. "It isn't a lot of money, but it's the principle of the thing," said one of the petitioners. "We knew we had (an) uphill battle … but we made our voices heard and feel it was worth it." However, it is not all bad news. Last month, the Legislature passed "An Act to Create Tax Equity Among Renewable Energy Investments" which creates a property tax exemption for solar energy projects. Because of this, while they miss out on the money from the last two years, taxpayers will not have to fight this issue going forward.

In Canada, a recent study has found that Toronto has the lowest property tax rate among 35 major Ontario cities. The study found Toronto, at roughly 0.615 per cent, beat Markham (0.660 per cent), Milton (0.686 per cent) and Richmond Hill (0.686 per cent) for the lowest spot. The cities with the highest property tax rates were Windsor, at 1.789 per cent, followed by Thunder Bay (1.598 per cent), Sault Ste. Marie (1.529 per cent) and North Bay (1.501 per cent). That means, according to the study's calculations, a house priced at $500,000 in Toronto, for instance, requires owners to pay $3,074 in property taxes, whereas a house priced at the same amount in Windsor requires $8,947 in property taxes. A City Councillor said Toronto's low tax rate may seem like good news for homeowners, but it's coming at the cost of city services. "Toronto is facing a number of serious challenges that cost money, and keeping our taxes down means we don't fix housing, we don't fix transit, we don't provide good recreation and we don't improve community services," he said. According to a separate recent study, Toronto homeowners could pay 20 per cent more in property taxes and still be paying less than their counterparts in half the municipalities around them. However, as another commentator observed, one of the reasons the property tax rate in other cities is higher than in Toronto is because their real estate prices are significantly lower. The study found the average cost of a Toronto home to be $915,481, whereas Windsor's average home price is $337,923. The City of Toronto also charges for water consumption and garbage pickup on a separate bill, while some municipalities in Ontario include it on the property tax bill. Still, he said even accounting for that discrepancy, Toronto has among the lowest rates in the province.

In Norway, the City of Oslo, which lost a key portion of a lawsuit filed by more than 1,000 property taxpayers, is now poised to refund NOK 388 million to 55,000 of its residents. Officials promise no city services will be cut in return. Oslo's city government initially wanted to impose property tax on those with the most expensive properties in Oslo. Since property values have risen dramatically, many more city residents are getting hit by the tax as well, and tax bills have risen rapidly. Now some of the tax, first imposed in 2016, is being refunded. A class-action lawsuit filed by 1,110 property owners - who found the new tax discriminatory - lost their effort to force the city to spread the property tax burden over all property owners, not just those with the most valuable real estate. They prevailed on another issue at the

Supreme Court, however, when it ruled earlier this summer that the city demanded property tax payments too quickly in 2016 by not giving residents enough time to pay from when the first official notification of the looming tax was made. That means all the property tax paid in 2016 was demanded and collected illegally. The government's 50 percent increase in the tax rate in 2017 was also illegal. The city should only have been able to collect at a rate of 2 percent on assessed value from 2017, not the 3 percent charged. The person in charge of finances for the City of Oslo noted that the city is legally obligated to only refund the money to the plaintiffs in the class-action lawsuit, which would amount to around NOK 9 million. He told state broadcaster NRK, however, that the city thinks "in this special case" that it's "reasonable" that all taxpayers receive refunds of the taxes they collectively paid in 2016 (NOK 250 million) plus for the illegal increase in tax bills in 2017. That amounted to a total of NOK 138 million. It remains questionable how "moderate" the property tax is, since it can amount to thousands of kroner a year. Even at the "moderate" tax rate of 3 percent of assessed value, and with a standard deduction that now amounts to NOK 4.6 million, actual tax bills have had double-digit increases, in some cases as much as 32 percent year-on-year. That's because the market values of homes in Oslo have risen dramatically, so tax bills rise accordingly.

In the Czech Republic, most Prague districts agreed to an increase in the real estate tax coefficient. It was reported that 53 out of a total of 57 districts were in favor of changing the method of determining the amount of tax; the four districts not planning an increase were not identified. The city is now preparing a decree allowing the amount of the coefficient for calculating the tax to be decided by individual town halls. Real estate tax is the only tax the city can influence. "Real estate tax has not changed in Prague for many years. The approval of the increase was carried across the political spectrum," a spokesman said. "The city districts have been calling for the real estate tax to increase. We decided to meet with them." Of the 53 districts planning an increase, 33 intend to set the coefficient higher than the city's draft decree, and 20 town halls will be satisfied with the proposed level. In Prague, the local coefficient is now set at the national lowest possible level of one. The coefficient is one of the factors used to set the final rate of residential property tax. Real estate tax consists of a land tax and a tax on buildings and units.

And finally, you know what they say, if something sounds to good to be true, it probably is! In Western Australia, councils began issuing annual rates notices in recent weeks, with one city delivering a happy surprise to dozens of locals. The 2019/2020 rates notices were issued with a balance summary of zero dollars. The Mayor said the rate was the lowest in 20 years - and he was clearly right! However, despite still laying claim to the lowest rates increase in more than two decades, the council announced there had been an error in printing a number of the rates notices. "Some 2019 rates notices have been issued with an error where balance summaries are showing a zero dollar balance," the statement said. "If you have been affected, please ignore this rates notice as a new notice with the correct balance will be issued to you. Please be assured that your rates account with the city has not been affected by this printing error." I imagine many taxpayers have been affected by this printing error; initially they were no doubt ecstatic, but now they will feel even more disgruntled than if they had just received the right bill in the first place!

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