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International Property Tax Institute
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PRESIDENT'S MESSAGE

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I wanted to start this newsletter by expressing my sympathy for all the people affected by the recent hurricanes that have caused so much damage and destruction in the Bahamas leading to serious loss of life. IPTI is holding its annual conference in the Bahamas at the end of October - in partnership with the RICS - and we are hoping to help the reconstruction effort taking place in the islands by offering those attending the conference - and anyone else associated with our two organisations - the opportunity to donate their professional skills and/or money. More details about this scheme will be available soon.

Moving on, I was interested to see a recent analysis of the use of Tax Increment Financing (TIF) in the USA. It seems that TIFs were first developed in the 1950s by California local governments, but for many years it was viewed as a relatively minor tool. Governments initially used it mainly for community development purposes. It provided a means of financing to tear down or rehabilitate properties that had become run-down (so-called blighted properties). Economic development is different from community development in that it focuses solely on economic issues like jobs and income, whereas community development considers those issues, but also issues like the physical condition and health of a community. TIF was not developed originally to address economic issues, but the health of communities.

TIF is a unique method of financing because of two characteristics. First, it is a geographic-based incentive. In establishing a TIF project, communities designate a TIF district, which may consist of one or a few parcels of land, up to many parcels of land or even neighborhoods in the larger districts. Other economic and community development incentives tend to be either offered on a case-by-case basis or are entitlement type incentives, available to any organization that qualifies.

The second difference comes down to the form of subsidy provided. In most other incentive programs, the subsidy is realized by an organization in the form of reduced taxes or direct payments. TIF projects establish a more complicated and indirect subsidy. After a TIF district is created, taxes received from households and businesses in the district go to two distinct groups. Tax revenues that existed before the establishment of the TIF district continue to flow to overlapping governments - cities, counties, school districts, any other local government established at that time. Revenues generated because of increases in the tax base (such as property values for the property tax, sales tax receipts for the sales tax) flow to the TIF district. TIF districts most often use property taxes, but can also use sales and other taxes in some states. For example, Illinois allows property taxes and sales taxes as revenue sources for districts.

Municipalities typically manage the districts although, in some states, counties or redevelopment agencies are authorized to manage them. The TIF district then uses these revenues to make improvements to the property, such as cleanup, land assembly and improving services such as streets and water/sewer connections. TIF districts will frequently issue debt to make the physical improvements to the parcels, then pay off the debt with future tax increment revenues. The period over which a TIF district can continue to receive taxes varies by state.

The author of this review states that, in a policy sense, TIF is an enigma. It has grown to be the most frequently used tool of development. However, it can be incredibly controversial and is a frequent target for reform. On the positive side, TIF can be quite useful in generating funding to cover construction and land development costs for new development. Incremental revenues can often more than cover the costs of getting land rehabilitated and ready for sale. By providing a stream of revenue over a long period to pay for capital expenditures, it can become the glue that seals public-private partnership deals. TIF is also very flexible, so it can be used in many different situations and to attract various forms of development.

The author goes on to state that, if used correctly, TIF can be an effective community planning and management tool. There are typically several steps involved in creating a TIF district and authorizing the division of tax revenues. These include the development of area plans, analyses of the impact of TIF and public hearings on the plans. When done in earnest, these offer the opportunity for community input and achievement of the goal of community transformation. Also, TIF almost certainly improves the appearance of properties impacted by the improvements, as well as raise the values of properties in the TIF district. The majority of academic studies have shown that property values in the TIF district have increased after the implementation of TIF, holding other factors constant.

The reasons for concerns about TIF fall into two categories: process concerns and impact concerns. One of the process concerns is that many local governments have not adopted TIF carefully. Another process concern is the lack of evaluation of projects. Only four states require a systematic assessment of projects after implementation.

The impact concerns with TIF lie chiefly with who benefits and who pays for projects. TIF benefits are highly concentrated. As already indicated, a parcel in a TIF district will likely benefit from TIF-funded improvements. However, the effects on the broader community are far less certain. Only a few studies have found substantial benefits to local economies from the use of TIF. This lack of widespread impact likely leads to households and businesses in other parts of a community subsidizing TIF improvements. The subsidization effect happens because potential revenues that could fund increased services in these areas go instead to the property owners in a TIF district. Communities as a whole benefit most in cases where the economic benefits from TIF are widespread beyond the district itself.

Another concern regarding TIF involves its targeting. Studies have shown that TIF tends to be used in more affluent and faster-growing areas of communities. Instead of being used as a tool of blight remediation, TIF has frequently been used to make already prosperous parts of a city even more prosperous. When governments use TIF in areas not in need of support, it increases the subsidy that the rest of the community gives to TIF districts.

The author summarises the position by stating that TIF is a popular but controversial tool of community and economic development. The financing technique has transformed dramatically since its inception. Many local governments use it because of its flexibility and power to focus resources on development and redevelopment projects. However, substantial concerns about its use and impacts remain. Reforms have been initiated in many cities and states. Over the near future, he says he fully expects TIF to survive as a development financing tool. But the form of TIF and the processes required for its use are likely to change in response to the concerns raised by many.

Looking back over September, IPTI has been working hard on a number of projects, one of which came to fruition with the preparation of a paper considering the potential for using artificial intelligence and machine-learning in connection with valuations for property tax purposes. More information about this paper will be provided in due course, but IPTI considers it is now time that the assessment industry looks seriously at the use of artificial intelligence and develops some standards to guide its development.

I recently spoke at the IAAO's Annual Conference in Niagara Falls and artificial intelligence was one of the topics I mentioned in my "crystal ball" look into the future for property taxation. At the same conference I also spoke - along with a number of COST and IAAO colleagues - about the outcome of our International Property Tax Scorecard relating to property tax administration.

Another interesting event I attended was the annual conference organised by the Rating Diploma Holders Section (RDHS) of the RICS. Held in the UK, this annual conference brings together some of the "leading lights" of professionals whose practice includes non-domestic rating (the annual property tax relating to non-residential properties in the UK) to discuss the latest developments in legislation and litigation.

As this newsletter goes out, I 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.

October also sees the start of IPTI's new series of mass appraisal training events. This will include a number of webinars dealing with topics such as an introduction to mass appraisal concepts, data readiness, determining value, use of multiple regression analysis, model calibration, ensuring quality, international standards, and the future of mass appraisal including artificial intelligence and machine-learning. In addition to the webinars, IPTI will also be running a number of online workshops on mass appraisal.

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 and I would urge all in this field to join us.

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.

Some interesting statistics from the USA. Information from the U.S. Census Bureau's quarterly tax data revealed that property owners paid $594 billion in property taxes over the four quarters ending in Q1 2019. It has been seven years since the four-quarter property tax revenues declined. The four-quarter growth rate of property tax revenue has slowed in each quarter following accelerating in Q3 and Q4 of 2017. Revenues increased by 18.1%, and corporate tax revenues grew at a faster pace than other tax receipts on an annual basis. State and local individual income tax revenues increased marginally 1.2%, while property and sales tax collections increased by 3.3% and 5.2%, respectively. The Census information shows that property taxes rose for the second-consecutive quarter, accounting for 39.6% of state and local tax receipts. Income taxes accounted for 28.2%, sales tax was 28%, and corporate taxes was 4.2%. The report states that non-property tax receipts are more sensitive to fluctuations in the business cycle, changes in consumer spending, and job availability. Property tax collections have proven to be "relatively stable," reflecting a long run of stability of tangible property values, as well as the smoothing effects of lagging assessments and annual adjustments. "Property tax receipts are the least volatile revenue source, followed by sales taxes, individual income taxes, and corporate income taxes, in order of increasing volatility," the report states. First American reported that household income increased 2.4% annually and 56.4% since January 2000. Home prices are 18% less expensive than in January 2000. The Chief Economist at First American said "When household income rises, consumer house-buying power increases. Declining mortgage rates have a similar impact on affordability, so in June home buyers received a double shot of house-buying power to jolt affordability in their favor nationally."

In Brazil, urban property tax may include environmental parameters for its calculation in future. Brazil's Senate is discussing an amendment to the Federal Constitution that aims to modify Article 156. If the bill is enacted into law, the environmental parameters of an urban property will be considered in assessing its property tax (IPTU). Among the measures proposed, exemption from payment would be applied to urban areas with native vegetation. The amendment also proposes that the IPTU rate would vary according to other environmental parameters, such as the reuse of pluvial waters and wastewater, the level of permeability of the soil and the use of renewable energy on the property. The bill was recently approved by the Senate's Commission of Constitution and Justice and will now be debated in the plenary.

In New Zealand, a council's "honesty box" approach to Airbnb rentals has come under fire. A Rotorua council candidate is vowing to fight the rental imbalance in the town. It is said that families are being squeezed out of the rental market in one of the country's tourism hotspots due to property owners being able to rent out their homes for up to 100 nights a year before they need to pay business rates, moteliers say. Even then, the council only finds out about the position if the property owner tells them; hence the "honesty box" comment. The influx of properties being placed on sites such as Airbnb and Bookabach has caused similar tensions between landlords and tenants across the country, from Queenstown to Nelson and Taranaki. There have been multiple calls for more regulation on Airbnb properties. There have also been complaints from residents who find themselves living among increased numbers of short-term rental homes, with one describing "three years of hell" due to excessive drinking and partying from guests renting out short term accommodation for bucks' parties and hens' nights!

In the UK, Northern Ireland's Department of Finance has launched a public consultation in an attempt to make the country's business rates system "effective and fair". The 2019 Review of Business Rates is due to last eight weeks, with the report set to be published in spring 2020. Business rates contribute over £655m to the overall rates income in Northern Ireland. The Permanent Secretary said: "My department has been working with a wide range of stakeholders including experts in urban regeneration, taxation and the high street to help inform the scope of this review and the consultation document which we are launching. This review is about looking at the current position and making recommendations to ensure that our business rates system is effective and fair while raising the funds needed to support Northern Ireland's key services. The business rates system, together with its suite of support measures, needs to be positioned to respond to changing marketplaces and local economic conditions. What we need now is for business ratepayers, business and trade organisations, local government and all interested parties to engage with us and put forward their perspectives, ideas and opinions." The Business Rates Review team will be attending a series of events organised by councils, chambers of commerce and other organisations across the region as part of the public consultation process which ends on 11 November. IPTI has a link to this consultation process as we were invited to participate in an "Innovation Lab" event earlier this year and some of the issues we discussed have contributed to the consultation paper.

In California, concern is growing about the age and number of property tax valuers and the impact of a possible change in legislation affecting the well-known Proposition 13. Thousands of property appraisers who work for county assessors across the state are about to retire. That has assessors worried because a statewide ballot initiative is offering to change the way certain properties are valued in California. The California Board of Equalization met in San Diego recently to gather feedback from officials on the best ways to recruit and retain property appraisers who work for county assessors across the state. About 70 percent of those appraisers, according to state data, are over the age of 50. Approved in 1978 by voters, Prop. 13 set limits on the annual increases of a property's assessed value. It was designed to protect families from sharp tax increases on the death of a loved one. But, as the Los Angeles Times reported last year, Prop. 13 has also proven highly profitable to an elite group of people who use second homes as investments, providing windfalls for long-time homeowner families while exacerbating generational inequities. Prop. 13 has also meant fewer resources for schools and local governments - an estimated $528 billion over the last 40 years. Under the new initiative, which has qualified for the 2020 ballot, commercial and industrial properties would effectively be removed from Prop. 13, providing schools and cities with new resources. Polls suggest that a slight majority of Californians are in favor. But county assessors at the Board of Equalization hearing were skeptical. One said the initiative would be impossible to implement on the timeline its proponents have offered, because it would cause assessment appeals - and the costs to review those appeals - to skyrocket. By his account, it takes five years to fully train a commercial and industrial property appraiser. He also complained that while the initiative is offering to give small businesses a break, assessors are not equipped to verify how many people work for a business. Some might lie in order to keep their tax rate low, he suggested. Supporters of the initiative acknowledge that the funding in increased taxes wouldn't begin to flow and offset the cost of all those new assessment appeals until 2023, but argue that the Legislature could ramp up its reimbursements to counties sooner. Others portrayed the initiative in a moral light, arguing that the new revenue could be used on homeless services and affordable housing. It will be interesting to see what happens.

It is a well-known fact that Canadians are some of the most polite people on the planet. However, it seems that property tax can cause even normally mild-mannered Canadians to speak "intemperately" from time to time. In New Brunswick, the government apparently squabbled for years over whether a company should get a property tax exemption for some storage tanks in Saint John. The exemption went into effect in 1980 and has stayed put ever since. However, a proposal to end or reduce property tax exemptions for large industry machinery and equipment in the province was recently considered. Just as two days of hearings on the issue were getting underway, the Finance Minister told reporters that he opposes the concept. He called the idea "a business crusher" that would hurt small businesses and farmers. "It could be taxing farmers for the tractors they use every day. It could be taxing people in pizzerias. Their pizza ovens are going to get taxed." The Saint John Harbour MLA who introduced the motion acknowledged his proposal is unlikely to be enacted but said the two days of hearings were still important. He said that the Minister's claim about the impact on farmers was not true. "That's bullsh*t," he is reported to have said. "We're not talking about that. We're talking about heavy industry. We're not talking about machinery that moves, and he knows that." It seems that Canadians are not sure what shocked them most - the idea of taxing machinery and equipment or a senior politician using such strong language about a colleague!

Cambodia has been told by the IMF to shake-up its property tax system to promote growth. Reform of property taxation would be the most effective way of boosting growth and tackling inequality in Cambodia, new research has found. The impact of different fiscal reforms in the country, in which income inequality, particularly between urban and rural areas, remains stubbornly high despite progress in combating poverty, according to analysis released by the International Monetary Fund. Specifically, it compared how GDP and inequality would be affected by a permanent increase of 0.5% in GDP in infrastructure investment financed by increasing either property levies, VAT or income tax. The reform of property taxation generated the largest positive effect on GDP and the most significant reduction in inequality, the working paper concluded. "This is because property taxes are inherently progressive: wealthier households own more and valuable property and will thus also pay a higher property tax," it said. "At the same time, property taxes do not distort the incentive to supply labour or undertake investments." All good stuff.

And finally, in New Jersey it seems that the "farmland assessment tax break" continues to cause concern. It is said to be a tax break intended for farmers that often makes the headlines when someone seems to be milking the system rather than the cows! Under the program, corporate office parks have received property tax breaks. Landowners who sell firewood have had their tax assessments cut. A very well-known, very senior US politician reportedly qualified for a farmland tax break because he kept a small goat herd and farmed hay at the golf clubs he owns in New Jersey. Another senior figure is now also said to be a beneficiary of the program, cutting his tax bill on five of the six acres of his high value property because he raises sheep on the land. The municipality has accepted his claim for exemption under the scheme, but no doubt some will say he is trying to pull the wool over their eyes!

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