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PRESIDENT'S MESSAGE

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I am writing this newsletter from the beautiful Paradise Island in the Bahamas which is where we are currently holding our Caribbean conference. At the start of the conference we had a moment of silence to reflect on the terrible impact that the recent hurricane season has had on parts of the Bahamas and on other islands and countries both in the Caribbean and elsewhere. I should add that we have committed to supporting local charities in the Bahamas in their rebuilding work; details of how people can donate money and/or their professional skills are shown on under "IPTI News" on our website: www.ipti.org

Moving on, I was interested to read a recent article entitled "How to Tax Tech Monopolies" which looked at this very topical issue which is concerning many jurisdictions around the world along with international organisations such as the OECD. The article considers the question of how to distribute the fruits of the economy's production which, it says, is central to economics.

It considers various approaches and then looks at the views of Henry George - a 19th-century American economist who believed that land was the source of human inequality. As the population and the economy grow, he reasoned, land remains scarce, so rents go up. Landowners don't actually produce anything that benefits the economy, but they capture much of the value created by workers and businesses that do use the land. Thus, land ownership is a vast engine of human poverty and concentration of undeserved wealth.

The author of this articles states that modern history seems to bear out George's assessment. In the 140 years since George wrote his magnum opus "Progress and Poverty," land has been a remarkably good financial investment across a range of developed countries. He goes on to say that much of the increasing wealth inequality documented recently by economist Thomas Piketty is due not to corporate profits, but to the increasing value of land.

George believed that it was government's job to redistribute these unearned profits on land ownership to the public at large. His preferred policy for doing this was a land value tax, which is like a property tax with an exemption for the value of useful structures or other improvements that are built on top of the land. A century later, economists began to realize that land value taxes are a very efficient way of funding local government services like education.

The article goes on to state that the land value tax is a simple, elegant policy on paper, but it tends to be tricky to implement. Some economists trained in the Georgist tradition have focused on more direct means of redistributing wealth earned from land. For example, Wolf Ladejinsky, who served as an adviser to the governments of Japan and Taiwan in the postwar years, engineered sweeping programs of agrarian land reform. Some credit these programs with jump-starting East Asian economic development, as well as creating a sense of fairness that diminished the appetite for communist revolutions.

In the modern day, neo-Georgist ideas tend to focus on urban land rather than farmland. As the knowledge economy becomes more important, high-earning workers are crowding into cities, sending rents soaring. Housing co-ops, public housing and programs to help lower-earning people buy houses are all ways to redistribute urban land.

But it's unlikely that land reform and taxation, by itself, will be enough to make people feel like they're living in a fair society. As spectacular profits accrue to the owners of a few dominant companies, it's worth asking whether those companies have some advantages that, like land, allow them to make profits out of proportion to the value they create. Patents and ownership of online platforms might be two such assets.

Economists call unearned profits "rent," drawing an explicit analogy with the income earned by a landlord. One source of rent is monopoly power: when a company doesn't have to face the pressures of competition, it can increase prices beyond the efficient level in order to earn extra profits. Industrial concentration has been rising, particularly in the USA, as a few so-called superstar companies gobble up market share. And as concentration goes up, profits have taken a larger share of economic output.

But the age of knowledge industries brings new challenges that older policies are ill-equipped to address. In the digital age, a lot more companies have strong network effects, meaning that the more people use a product, the more valuable it is. Facebook is stated to be the classic example - people are on the site not because it necessarily has the best features, but because all of their friends are on it.

The author's view is that network effects are a little like land, only in digital form. Because Facebook successfully occupied the social network space - rather like claiming empty land - it's difficult for later competitors to grow. It's not impossible. More recent platforms such as Snap and Pinterest have carved out networks of their own, and eventually some newcomer may dethrone Facebook the way it dethroned MySpace. But the strength of network effects for first movers leads to market concentration and a few dominant companies.

According to the author, the patent system is another source of rent extraction - the government allows companies a temporary monopoly in order to encourage innovation. But since new technologies tend to build on older ones, patents can allow first movers to block out the possible competition and hog profits for a long time. Modern-day Georgists, the author states, should think about how to redistribute this "digital land". Early ideas involve regulating online platforms to allow more competition, reforming the patent system and a progressive corporate tax that only kicks in when companies have very high margins.

Businesses, entrepreneurs and inventors certainly put in plenty of effort and take plenty of risks to create new platforms and patentable innovations. But the rewards may be out of proportion to the value created. Finding new ways to redistribute the rents from "digital land" may help to avert damaging class warfare. I have included extensive extracts from this article as it attempts to provide a solution to a very modern issue that many governments and international bodies are currently grappling with.

Looking back over October, IPTI has been busy working on a number of projects that are reaching various stages of completion. These include, inter alia, advice on the procurement of new technology for some assessing jurisdictions in North America and Europe, guidance on effective property tax management, a benchmarking study looking at the cost of providing property tax valuations and best practice in quality assurance, independent facilitation services for a forthcoming revaluation, and the provision of new training material.

IPTI was also involved in a very interesting three-day property tax workshop held in Las Vegas, Nevada and organised by our International Property Tax Scorecard partners, the Council on State Taxation (COST). This event is mainly attended by corporations which comprise some of the largest property taxpayers in the USA, many of which also pay property taxes on their company assets around the world.

Another of IPTI's partner organisations, the Institute of Revenues Rating and Valuation (IRRV) invited us to participate in their Annual Conference which is held in Telford in the UK. I spoke at the conference on the topic of "Property Tax - An International Perspective" to provide an update on various current global property tax issues. As part of this event, the IRRV hold a prestigious "Performance Awards Dinner" and kindly invited IPTI to present an Award to a winning team from a UK local government.

We held a meeting of IPTI's Board of Advisors during October during which Board Members were updated on recent IPTI events and progress on various projects. The Board had particularly interesting discussions on two matters: (a) the use of artificial intelligence in property tax valuations (with reference to IPTI's recent White Paper on the issue); and (b) the impact of online shopping on traditional retail centres. The latter discussion was wide-ranging and took into account not only the "disruption" caused by online companies to existing High Streets and out-of-town retail centres, but also wider changes to the many other traditional "bricks and mortar" parts of the property market. Board Members recognised that this was a global issue and one that was already having an impact on property tax systems. It is therefore a topic that warrants further review by IPTI and we will consider how best we might facilitate discussion of the issues.

October also saw the first in our new series of webinars and workshops on the topic of mass appraisal. The first webinar was presented by two very experienced experts on mass appraisal and I was very pleased to see that we had participants taking part from around the globe. The next webinar in the series will be taking place in November and then we will be delivering them broadly on a monthly basis thereafter, culminating in thress face-to-face mass appraisal workshops in 2020.

Looking ahead, we have lots of interesting events coming up; full details are, as usual, on the website.

Now, it's time for a quick look at what is making headlines concerning property taxes in selected countries around the world.

In Cambodia, the International Monetary Fund (IMF) released findings from a working paper that looked at the property tax regime and called for reform in the name of financial inclusion. "IMF Working Paper: Advancing Inclusive Growth in Cambodia" gave a 26-page analysis of options for tax reform and their impact on Cambodia's gross domestic product (GDP). Through careful consideration, the IMF's research found that property tax currently generates just 0.1 percent of GDP, but an increase in property tax could hold the potential to increase GDP up to 2.7 percent. By contrast, the paper noted that an increase in value-added tax (VAT) and income tax would only generate GDP growth up to 1.8 percent and 0.3 percent respectively. "Revenue from property taxation accounts for only 0.1 percent of GDP, which is very low compared with regional peers (e.g. Indonesia, Philippines and Malaysia)" the study finds. "This is despite the progressive profile of property taxation, which is predominantly levied on richer households in the urban areas." It was reported that stamp duty on property transfers in 2019 had increased by 60.18 percent compared with the same period last year and that $227 million of the $1.85 billion it had collected by October 2018 was derived from property tax. This, coupled with the new tax base for stamp duty tax introduced in July this year, highlights a commitment to addressing the need for more progressive taxes, particularly within the real estate sector. "A reform of property-related tax would certainly aid the ability to fast-track some of the key infrastructure projects in Cambodia, that will increase connectivity, trade, travel, accessibility and more," said the CEO of a local real estate company who echoed the IMF's notion that increased revenue generated through property tax could be used to fund infrastructure projects. "Taxes on property average 4.4 percent of total revenue and are almost 25 percent below the OECD average; further, property taxes are heavily concentrated in a small number of high-income economies (Australia; Hong Kong, China; New Zealand; the Republic of Korea; Singapore; and Taipei, China), meaning that their contribution in most other economies is very small," the report states.

In Australia, a council in Tasmania is appealing against the Federal Court's dismissal of its case to recoup more than $1.7 million in supposedly unpaid rates from the owners of Launceston Airport. The long-running issue dates back to 1998 when airports were privatised in Australia and the federal government began entering into long-term leases with private airport operators. The Northern Midlands Council alleges it's owed $1.79 million in unpaid rates due to a non-legally binding Commonwealth requirement that airport lessees pay councils a rates equivalent which would otherwise be paid if the airport wasn't situated on Commonwealth land. A Launceston Airport spokesman said an appeal would be "yet another speed-bump to getting on with the meaningful job of jointly investing in developing travel to and from this region. We remain ready as ever to have that conversation [with the council]," the spokesman said. "Legal/court costs were awarded against the council for its last court action and we are really disappointed that the council intends to double down on its claims, putting even more of its ratepayers' money at risk." Australian Pacific Airports and the Commonwealth argued in the Federal Court that the council didn't have a say in the matter due to it not being party to the lease agreement. The case was heard together with that of Clarence City Council, which was contested on similar grounds regarding Hobart Airport. Both the Northern Midlands Council and Clarence City Council argued in court hearings that they'd been shortchanged rate payments after the value of airport sites increased in 2013 following a review by the state's Valuer-General. However, the Commonwealth engaged a private independent valuer which arrived at different valuations by using alternative methodologies. It will be interesting to see how this dispute is resolved in due course.

On a separate issue in Tasmania, a disgruntled businessman has told a state government review looking into local government legislation that, in his view, all councils and their rates charges should be abolished. The man, who is in dispute with the West Coast Council over rates charges for a mine, said the state government should take over council activities, immediately cancel all outstanding rates charges, and refund current rates already paid. “They are calculating and charging unjustifiable, punitive taxes upon the good citizens and businesses of Tasmania and then wasting our money. It's most likely illegal.” he said. He went on to say that the West Coast Council had overcharged the company which owned the mine by millions of dollars in rates. He said he had legal advice that made him confident he was in the right, and he hoped the council would change its mind. He disagrees with the valuation of the mine and the level of rates the council charges. It seems there are some interesting challenges going on in Tasmania!

In Canada, throughout Alberta, but particularly Calgary and Edmonton, businesses pay much higher property tax rates than residents, which can lead to businesses leaving the area or simply closing, finds a new study by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank. “When punitive commercial property taxes force businesses to leave or close, the make-up of our communities and cities can change profoundly,” said a senior policy analyst with the Fraser Institute and co-author of “Who Bears the Burden of Property Taxes in Canada’s Largest Metropolitan Areas?” The study analyzes the ratio of municipal and provincial property tax rates (including education) paid by residents, businesses and industries in Canada’s major urban areas. In the Calgary area, the average commercial property tax rate was 1.8 times - or nearly double - what the average residential property tax rate was in 2018, the most recent year of comparable data. But in the City of Calgary itself, commercial property tax rates were three times that of residential properties, the highest in the region. By comparison, the ratio between commercial and residential tax rates were significantly lower in Airdrie (1.8-to-1) and Cochrane (1.4-to-1). Likewise in Edmonton, while the regional average ratio between commercial and residential tax rates was 1.7-to-1, the City of Edmonton had a 2.5-to-1 ratio, which is higher than Strathcona (1.8-to-1) and St. Albert (1.4-to-1). “In both Calgary and Edmonton, businesses face a higher property tax burden than residents, with little justification for the higher rates,” the report said. “Property taxes should reflect the level of services used by ratepayers, so local and provincial governments need to demonstrate how businesses in Calgary and Edmonton consume two to three times the local services that residents do.”

In Germany, the Bundestag passed the Federal Ministry of Finance’s proposal for a property tax reform by approving an amendment to the Basic Law. The property tax reform must be completed by the end of the year as the Federal Constitutional Court had previously objected to outdated tax bases. A leading academic stated: “Economically, it makes sense to closely link the amount of property tax to the value of real estate. In this respect the reform passed is to be welcomed. Unfortunately, the so-called ‘opening clause’ allows the individual federal states to go their own way and base the tax solely on plot size. Hence, the reform could lead to a federal fragmentation. If the plot size model prevails in the competition between the individual states, there is the danger of an economically unsound and unfair property tax.” By way of background, last year the Constitutional Court ruled the Grundsteuer (property/land tax) obsolete and gave the government until the end of 2019 to come up with a new way of calculating the tax for Germany's 36 million properties. This month, the Bundestag paved the way for reform with an amendment to the Basic Law. As put forward by Finance Minister, the tax will now be calculated according to land value and rent, which means 36 million properties and houses have to be revalued. However, due to pressure from the state of Bavaria, there will be a clause that means states can introduce their own regulations. According to the Federal Statistical Office, revenue from property tax last year totalled €14.2 billion, all going to local governments. Payment depends on the assessed value of the property, the property tax rate and the assessment rate set by the local government. Germany has 11,000 local municipalities, so there are lots of variations on the typical amounts that people have to pay. Properties were last valued for the tax in what was West Germany in 1964 and in what was East Germany in 1935. An earlier proposal was that property value would be replaced by a calculation based upon size of property, location, transport connections and cost of build; but that was not agreed. The Finance Minister wants a general rule that will see the value of the land and the average rent play a role in the calculation. But the bill will allow individual states to introduce their own regulations. Bavaria, for example, wants to use only the size of the property for the calculation. No matter which model a federal state chooses, the local governments still have the last word on assessment rates. Once the new law has passed through the Bundesrat too, which is considered certain as the details of the reform have been agreed with the federal states, the government will have a transition period to carry out the assessments necessary to start levying the tax accordingly, with plans to launch the new tax in 2025. Those five years are needed because it will take some time to reassess all of the country's some 36 million properties.

And finally, bad news for a couple who sold their home in California to a billionaire for $14 million. It seems they were perfectly happy in their old home of nearly 20 years. But when a company controlled by Facebook founder Mark Zuckerberg said it would pay $14 million for the property, the offer was said to be too good to pass up. It was described as a classic Silicon Valley real estate dream come true as they had paid a fraction of that for the house. They packed up and headed for a new home assessed at just under $7 million. The couple planned to use a state law that allows residents over age 55 to transfer their property taxes, in this case from the Palo Alto home to the new house in Atherton, without increasing their tax payment. Because they had purchased the Palo Alto house for little more than $1 million in 1995, what’s known as the base year value had risen to just $1.7 million, a huge figure in most real estate markets, but relatively modest on the Peninsula. They paid less than $20,000 a year in property taxes. The state law, Prop. 90, allows people who move from one of a few participating counties to another to keep their old property tax, as long as their new home is of equal or lesser value than their old residence. But, based on an assessment of their Palo Alto home of $4.9 million (rather than the $14 million sale price), their request for relief was denied and their property taxes rose to around $80,000. The assessor said “Just because there’s a transaction that doesn’t determine the market.” The couple spent years embroiled in a bitter and costly multi-county tax dispute that resulted in a lawsuit in Santa Clara County Superior Court over how much a property is really worth and who gets to decide. Sadly for them, they were unable to persuade the court to accept they were entitled to relief. It seems that every silver lining has a cloud!

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