International Property Tax Institute

PRESIDENT'S MESSAGE

December 2019

As this will be my last monthly newsletter before the festive season, may I take this opportunity to wish you all a very Merry Christmas and a Happy New Year. I hope that you have a very enjoyable time with family and friends over the break and start 2020 fully refreshed and firing on all cylinders.

IPTI, in partnership with the IRRV, is currently working with the Valuation Office in Ireland on a project concerning the modernisation of their existing computer system to support, inter alia, their valuations of non-residential properties for property tax purposes. Ireland is an interesting country when it comes to property taxes as it has two separate systems: (a) commercial rates are paid in respect of non-residential properties based on annual rental values assessed by the Irish VO and (b) local property tax is paid in respect of residential properties based on self-assessed banded capital values.

A recent article in an Irish newspaper looked at some of the issues surrounding these two property tax systems. The article was titled "Is it time to reset property taxes and commercial rates?" and suggested that, as local authorities were currently preparing their 2020 budgets, it may be time to examine if the local property tax and commercial rates system is fit for purpose.

The author said that local authorities around the country are currently discussing and adopting council budgets for 2020 at their annual budget meetings. Councils have already decided their 2020 Local Property Tax (LPT) rate and whether to adjust the basic rate up or down by 15%, resulting in higher or lower property tax bills for owners of residential properties. As for the other local tax, commercial rates, the Annual Rate on Valuation (ARV) will be agreed as part of the adopted budget process.

He went on to say that both taxes have many features in common. They are both recurrent taxes on immovable property and are important sources of local government funding, with service charges and central government grants as the other revenue sources. Revaluations, he said, are not common, but are often controversial when they take place.

They are also local taxes in the true sense, as Irish local councils have rate-setting powers in both cases. In England, for example, the tax on business rates is set centrally by national government and local councils there do not retain the full business rates income collected in their local authority area. In Ireland, control over the rate of tax makes local councils accountable to residents and taxpayers.

In other respects, the LPT and commercial rates are very different. The property tax is a relatively new tax whereas commercial rates date back to the 19th century. Commercial rates account for over 30% of revenue income, but the LPT accounts for less than 10%. While commercial rates are a tax on business as the base is commercial and industrial properties, the LPT is a tax on ownership of residential properties. Collection rates differ with, on average, collection rates lower for commercial rates (86% nationwide in 2017, ranging from a low of 74% in Donegal County Council to a high of 96% in Fingal County Council) than for the LPT where the national average was 97%.

The article went on to state that the LPT has a relatively high profile and attracts more media attention than commercial rates. While this may be understandable given the newness and the salient nature of LPT and the rise in residential property prices since the first valuations for LPT purposes, it is both disappointing and unwise. As businesses and commercial activity do not have a vote in elections, weak or short-sighted local governments often see this as a reason to levy excessive taxes on the business sector, knowing they can avoid any potential backlash from other undertaxed local taxpayers and voters.

The author states that there is a strong economic argument that the tax burden should be imposed on those that benefit from the public services that are financed by the tax payments. One such beneficiary is the owner of a residential property as the property owner avails of the local services provided by the council, such as road maintenance and street cleaning, libraries and cultural programmes, fire service, parks and playgrounds etc. Whereas this would suggest a tax take more from LPT and less from commercial rates, the inverse is true. As alluded to already, income from commercial rates, totalling €1.5bn, far outweighs the LPT yield of about €500m (over €100m of which is for self-funding and over €75m of that is for capital spending and, thus, not for discretionary day-to-day spending).

He goes on to say that, as an independent observer of local government funding and with no vested interest in one revenue source over another, I believe more research, evidence and debate is needed on the respective merits of commercial rates and the LPT, and on the optimal balance between these two local government revenue sources. There are many interesting public policy questions about commercial rates that do not get the attention they deserve, he says.

For example, aside from historical levels and the requirement to balance the budget, how can the wide variation in ARVs nationwide be explained he asks? For example, Kerry County Council charge a rate of 79.25 as against a rate of 56.77 imposed by Tipperary County Council. How much are above-average ARVs harming local business activity - existing and latent - and regional economic growth? Could greater commercial activity be incentivised by lowering the ARV on businesses, and particularly on the indigenous SME sector while, at the same time, maintaining by means of tapping other income sources (service charges and/or the LPT, for example) sufficient revenue for local councils to deliver local public services and ensure local fiscal discipline?

Contrary to popular opinion, the author states, a call for an increase in revenue income from the LPT in order to increase non-business property tax revenue more in line with the norm in other countries (the LPT in Ireland accounts for less than one percent of total tax revenue, and is dwindling as a share of the total tax take) could allow some fiscal space for a reduction in commercial rates. This, in his opinion, would keep total local taxation constant i.e. a revenue-neutral change, in the absence of any change in expenditure functions assigned to local authorities in a local government sector that is highly centralised.

Despite the political sensitivities involved, the article states that the best way to introduce this would be to allow residential property revaluations to proceed, and to be done on a regular and timely basis, to avoid similar political difficulties in the future. In turn, councils should be allowed to keep the extra revenue from the higher LPT yield. They would then face policy choices: do they use the extra revenue from the LPT to reduce commercial rates and/or the service charges that are closely linked to economic activity? Or do they increase the quality of local public services. For councils in deficit, do they run overall surpluses to reduce the accumulated revenue balances, or do they use the funds in the future to finance public investment, such as large-scale infrastructural projects?

A policy debate on changes to the LPT is also necessary in the author's view. For example, he says there is a need to re-examine the funding, size and methodology of the fiscal equalisation grant currently from LPT receipts. This Robin Hood-type equalisation programme sees council income from urban and especially Dublin-based councils with large property bases redistributed to those councils with smaller tax bases, many of which are rural with relatively low levels of economic activity.

Rather than the current formula and distribution model, where the baseline is essentially founded on the 2014 general purpose grant amounts, a more transparent and formula-based objective model is required in the medium term. This would preferably use estimates of fiscal capacity and expenditure needs as is common in many other countries.

The author concludes that, whereas the focus of local councils in the next month will be, and rightly so, on services and funding for 2020, the hope is that central government, and especially the Department of Housing, Planning and Local Government, will consider some of the issues raised here. By doing so, they would contribute to a revamped funding system for local government that is more conducive to a growing business and commercial sector. At the same time, they could ensure adequate income for all local authorities (whether big or small, rural or urban, in surplus or deficit) and provide high-quality public services to local residents.

I think this article contains lots of interesting thoughts about current property taxes in Ireland that resonate with policy issues concerning property tax systems around the world.

Looking back, you may recall that my last newsletter was written during our Caribbean conference held at the Atlantis Hotel on Paradise Island in the Bahamas. On Day 2 of the conference, which had not taken place when my previous message was written, we had a number of interesting presentations. However, the part of the conference I wanted to mention was a panel session involving senior colleagues from a number of professional organisations including the Royal Institution of Chartered Surveyors (RICS), the International Association of Assessing Officers (IAAO), the Institute for Revenues, Rating and Valuation (IRRV), the Bahamas Real Estate Association (BREA) and, of course, IPTI. The panel, with some lively interaction from the informed audience, discussed the importance of professional organisations working collaboratively. All agreed that, in this day and age, it was important for professional bodies to work in partnership to ensure that their members had access to a wide range of guidance and advice on current topics along with the best possible training and education on matters of professional importance. I am pleased to say that our Caribbean conference was a great example of such collaborative working and I am grateful to colleagues from the foregoing organisations for participating.

I am pleased to say that we held another in our series of webinars on mass appraisal during November. This one was focussed on “Data Readiness” and our experienced speakers looked at the data requirements that are essential to support a successful mass appraisal exercise. Topics covered included data sources, data collection tools, the importance of data accuracy, the different types of data required, sample/population data, and the differing data requirements of the three approaches to valuation. It was an interesting and enjoyable session generating very positive feedback from participants.

Also during November we held our 2019 Australasian Property Tax Summit in Melbourne, Victoria. The Summit title was “Funding Futures for Local Government” and we had a range of excellent speakers from Australia, New Zealand and wider international jurisdictions discussing the key issues. We are grateful to the following cooperating organisations for their help in connection with the conference: the Municipal Association of Victoria (MAV), Local Government New Zealand (LGNZ), the Society of Local Government Managers, New Zealand (SOLGM) and the Australasian Council of Valuers-General (ACOVG).

Whilst I was in Australia I had the opportunity of speaking to the Acting Valuer General for New South Wales who was attending our conference. IPTI has recently prepared a report for the VG NSW and it was a useful opportunity to discuss the report and the next steps for this project.

On my way to Australia I stopped off in Hong Kong to visit the Rating Valuation Department (RVD). The RVD Commissioner, Mr LY Choi, is a Member of IPTI’s Board of Advisors and it was a pleasure to chat to him and his senior colleagues about a number of matters. In the afternoon, I gave a presentation to the professional staff of the RVD on current issues in property taxation around the world. I should add that my visit took place during some of the violent protests that were taking place in Hong Kong and the offices of the RVD were one of many buildings to have been damaged by protesters. It is a testament to the staff of the RVD that they continued to work in the building despite the damage and the level of unrest.

On my way back from Australia I stopped off in Singapore to meet with the Chief Valuer and senior members of the property tax valuation team who work for the Inland Revenue Authority of Singapore (IRAS). We had a very interesting “round table” discussion concerning latest developments in the property tax system in Singapore and, in particular, the new ways in which IRAS are now communicating with property taxpayers. I am hoping that we will have IRAS speakers at our 2020 MAVS in Calgary, Canada who can share these exciting new developments.

During November we held another in our series of webinars delivered in partnership with the Institute of Municipal Assessors (IMA). This webinar dealt with the “Valuation of Leisure Properties”. Our two very experienced presenters looked at the valuation of various types of leisure properties including resort hotels, golf facilities, marinas and casinos. A number of valuation approaches were considered with emphasis on the application of the income approach. The presenters also looked at data collection, the identification of non-assessable components, the analysis of revenue sources and expenditures, and the derivation of capitalization rates. The webinar was well received by participants.

One of our webinar leaders for the above event was Carlos Resendes, M.I.M.A. I am very pleased to announce that Carlos has joined IPTI as a Director. Carlos has many years of professional experience in both the private and public sector. His most recent role was as Vice-President, Business and Innovation Services, at the Property Valuation Services Corporation (PVSC) in Nova Scotia, Canada. Previously he worked with both the Municipal Property Assessment Corporation (MPAC) and the City of London in Ontario, Canada. Carlos is a graduate of the University of British Columbia Real Property Assessment and Administration program and he holds the M.I.M.A. designation from the Institute of Municipal Assessors (IMA) in Canada. He is also a licensed paralegal with the Law Society of Ontario. Carlos is a very welcome addition to the IPTI team.

I have mentioned in previous newsletters that IPTI has recently prepared a White Paper on "The Potential of Artificial Intelligence in Property Assessment". This paper has now been sent out to a panel of experts for a technical review. Once that review has taken place, and any amendments to the paper have been made, we will make the White Paper more widely available for information and comment. We are hoping that the paper will lead to the development of appropriate standards to deal with the use of Artificial Intelligence and Machine Learning in the property valuation process.

Looking ahead, we have lots of interesting events coming up. These include more webinars and workshops in our series on mass appraisal; more IMA-IPTI webinars; another workshop organised for our corporate members, this time on the topic of the "Role of Mediation in Valuation Disputes"; and our 2020 Mass Appraisal Valuation Symposium (MAVS) to be held in Calgary, Alberta on 3-4 June next year. Full details of all these events are, as usual, available on the website: www.ipti.org

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

Some interesting facts about the New York property tax system were contained in a recent report from the state Comptroller's Office. The annual growth in property taxes in New York rose, on average, 4.2% between 2005 and 2012. Since then, the average increase has been 1.7% - the result of the state's property cap enacted in 2011 that limits growth to no more than 2% a year. The cap was made permanent this year. Local governments levied $36.6 billion in property taxes in 2019. New York has long held the distinction of having downstate counties paying the highest property taxes in America, including in Westchester and Rockland. Meanwhile, parts of upstate pay the highest taxes compared to home values, including the Binghamton, Syracuse and Rochester metro areas. There are 3,700 taxing jurisdictions with independent authority to levy property taxes in New York; they include counties, cities, towns, villages, school districts, fire districts and other special districts. Property tax collections accounted for 43% of local governments' revenues in 2018. The rest is mainly other government aid, along with fees or fines they collect. Of all the property taxes collected in New York, cities had the largest increase in recent years. From 2017 to 2019, property taxes increased in cities by 6.1%; towns at 4.4% and school districts at 4%. Village levies grew 1.7%. School districts generally imposed the highest tax rates at $17.46 per $1,000 of full property value, while city tax rates were twice as high as those in villages and nearly three times higher than those in towns, the report said. School taxes accounted for nearly $23 billion of the total taxes levied in 2019, or 63% of the total. Counties accounted for nearly $6 billion, or 16% of all property taxes.

An interesting report has recently been published which looks at the ratio between commercial property tax rates and residential property tax rates in Canada. It found that the average commercial-to-residential tax ratio for all municipalities surveyed in 2019 was 2.84 as compared to 2.90 in 2018. This minor decrease is the result of eight cities lowering their ratio in 2019 as opposed to five cities lowering their ratio in 2018. Most significantly, for the first time in at least 20 years, Vancouver's ratio dropped below 4.0, with a decrease of 17.17%. While Montreal, Toronto and Vancouver continue to post the highest commercial-to-residential ratios, Montreal has now taken the top spot for highest commercial-to-residential property tax ratio, reaching 3.93. Additionally, Calgary saw the largest increase in the survey for the second year in a row with a jump of 8.31% to 3.31. For the first time in six years, Halifax now sits slightly above average with a ratio of 2.87.

On a similar topic, businesses in Christchurch, New Zealand say they want more for their rates dollar. They say that for every $1 a Christchurch homeowner pays as city council rates, the owner of a business property pays $1.66. A new city council committee will focus on the central city and look at such topics as possible council incentives or relief from costs for both businesses and residents. All the city's ratepayers are facing about a 50 per cent increase in rates over the next decade. In the central city, higher property values compound the effect of the council's differential rating system. Average central city business rates now range from several thousand dollars for small premises, to $20,000 a year for a medium-sized 250sqm store or cafe, to over $500,000 for a major office building.

And finally, two examples of what might be described as "over-exuberant" property tax enforcement. The first comes from the Isle of Wight in the UK where a local council sent a man a bill for £0.01 in respect of his recently deceased mother's council tax. He said "It is laughable, they are literally penny pinching. They have tried to get the last penny out of her. It must have cost them many more times the amount owing to send the letter to me." An Isle of Wight Council spokesman said the payment is not being pursued. The spokesman said: "We would like to express our sincere condolences to the family and apologise that this situation has arisen. When closing an account, sometimes, due to the calculations, regrettably it can result in small amounts being left owing. We would not pursue payment for such a small amount."

Rather more serious than the above example comes from Michigan in the USA where a man had his house taken from him over an unpaid $8.41 property tax bill. That "oversight" led the local county treasurer to foreclose on the house and sell it. "It seems pretty outrageous to take an entire home from someone for this," said his lawyer. Apparently, the man bought the suburban Detroit house in 2011 for $60,000 and, after the purchase, he underpaid his property tax balance that year. Two years later, he tried to pay back the 2011 balance including additional fees. However, he miscalculated the interest that had accrued and his payment was short by $8.41. The 83-year-old went on to pay taxes for 2012, 2013 and part of 2014, but the unpaid $8.41 led the Treasurer's Office to foreclose on the house and auction it. It may be fair, in an extreme case, to sell a property to recover a property tax debt; however, in this case, the local government (legitimately, they say) retained the entire proceeds of the sale. That does sound a bit harsh!

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