PRESIDENT'S MESSAGE

March 2020

Australia and the United Kingdom may be on opposite sides of the planet but, recently, they have been "brought together" by suggestions for changes in parts of their property tax systems. In Australia, the issue of a "shift" in the burden of property taxes - from stamp duty payable on transactions to an increase in annual land tax - has been raised again whilst, in the UK, it has been suggested that the Chancellor of the Exchequer - in his Budget on 11 March 2020 - should reduce the burden of business rates (the annual property tax for non-residential properties) by introducing a land tax.

Under the heading of "Is stamp duty facing the axe in Australia?", a recent article states that stamp duty on property purchases has been identified as a key barrier for those looking to acquire their first home or downsize. The article said that two former federal treasury secretaries have united to call for the abolition of stamp duty in favour of a land tax. Ken Henry and Martin Parkinson both appeared at a conference at the NSW Parliament to discuss federal and state finances as part of a review currently being undertaken.

Dr Henry told the conference that the stamp duties levied by state governments on property purchases create an unfair hurdle for young aspiring homeowners. "If stamp duty were abolished and replaced with an annual land tax, over a 15-year period - or whatever it is - they'll end up paying the same amount. But they don't have to come up with all the cash up front."

Already the ACT has moved to phase out stamp duty and replace it with annual land tax bills, but all other states and territories are sticking with stamp duty for now. Dr Henry's successor as Treasury secretary, Dr Parkinson, also backed the call to abolish stamp duty and replace it with land tax.

Dr Henry's landmark tax review - that was released but widely ignored a decade ago - also recommended abolishing stamp duty in favour of an annual land tax. Dr Henry said doing that would not only get rid of many "distortions" created by stamp duties but also help to put state finances on a more sustainable footing. "Ten years ago, when we looked at the various taxes in the federation, stamp duty stood out then as being the worst, for a whole host of reasons," said Dr Henry.

"It doesn't make sense to tax transactions per se; and that is, of course, what stamp duty does. ''It creates all sorts of economic and social distortions: people being reluctant to sell their property and buy a property that makes more sense for them because they're in a new stage of their lives, for example.

Dr Henry said stamp duty was also a big revenue item in the budget, which exposed the budget to a lot of volatility due to sharp rises and falls in property values and transaction levels. He said abolishing stamp duty was worth doing whether the property market was booming or not. “It’s just a bad tax,’’ he said.

As for design, Dr Henry said the new land tax should apply to a broad base of properties but should exempt low value land and apply higher tax rates incrementally on higher valued land. “Like the income tax system, there would be a progressive rate scale and that would mean that most, if not all, farming land, for example, would not actually pay any land tax because the value of the farming land per square metre would be too low to attract a tax,” he said.

Dr Henry said the tax switch should be phased in, so that existing property owners - who had already paid stamp duty - were exempt from paying the new land tax until their next purchase. At the moment, most states and territories in Australia only apply land tax to second properties such as investment houses and holiday homes once they reach a certain value, so adding land tax to owner-occupied properties could be politically difficult and controversial.

The argument has echoed in Australia for years. Former prime minister Julia Gillard argued for it in 2012, asserting it would improve the nation's competitiveness and increase the mobility of labour, which was a big talking point during the resources boom. In 2005, former treasurer Peter Costello antagonised the states by demanding they abolish stamp duty in return for a windfall from the GST, the article stated.

Switching now to the UK, the possibility of introducing an annual land tax has been raised as a means of either reducing or abolishing business rates - the annual tax levied on non-domestic properties.

Recent newspaper reports suggest that the UK government will consider “radical plans” to scrap business rates and replace them with a land value tax in a bid to save struggling high streets. It is said that, in his first budget, the new Chancellor will announce a “fundamental” review of the business rates system amid concerns that it is penalising businesses, particularly high street retailers.

According to recent articles, the current business rates system is viewed as outdated because companies that need a presence in town centres pay higher rates than online and out-of-town rivals. The review will examine proposals for a tax on the land rather than buildings based on its “permitted planning” use, meaning that farmland would face a lower levy than developed areas. The tax would be levied on landlords, delivering a potential tax cut for hundreds of thousands of small businesses which rent premises.

A government source, however, emphasised that the land value tax plans would be considered over the “medium to long term”. A separate package of measures will be included in the Budget to provide more short-term relief. The last review of the tax was three years ago and resulted in relatively minor changes.

The tax brings in about £30 billion a year, making it the sixth biggest contributor to Treasury coffers, and is viewed by the government as easy to collect and hard to avoid. Rates have become an increasingly important source of funding for local authorities.

Business groups have long called for extensive reform and recently the UK Treasury Select Committee concluded that an overhaul of the tax was required rather than "sticking plaster" reforms. It called on the government to consider alternatives, including a land value tax, an online sales levy, or a profits tax.

It will be interesting to see what, if anything, the Chancellor does announce in the forthcoming UK Budget. In addition to reform of the non-residential property tax (business rates), there is some pressure for reform of the annual property tax (council tax) paid in respect of residential properties in the UK. There has recently been talk about introducing a "mansion tax", but that would be another "sticking plaster" when what is required is a thorough review and reform of both types of UK annual property tax.

Moving on, I am sorry to announce that our planned IPTI-SISV property tax conference in Singapore, which was due to take place later this year as I mentioned in my last newsletter, has had to be postponed due to concerns about the impact of the coronavirus which is causing problems in many parts of the world. We are hoping to hold this event in 2021 instead.

Looking ahead to other forthcoming IPTI events, we have a series of webinars and workshops over the coming months that are aimed at the particular interests of corporate property taxpayers.

We are also offering a number of mass appraisal webinars and workshops which are part of a related series of such training events we have organised to provide information and support to those involved in these important areas of valuation work.

And we continue to offer webinars for those who specialise in the valuation of particular types of property. For example, in February, in partnership with the Institute of Municipal Assessors (IMA), we delivered a webinar on the valuation of entertainment properties which included sports arenas/stadiums, racetracks, theatre/performing arts centres, etc. In March, we are holding another IMA-IPTI webinar, this time on the subject of valuing ports, airports and railyards which present unique valuation challenges.

Full details of all our forthcoming 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.

In Ukraine, it is reported that the government is losing large amounts of potential revenue due to its low property tax rates. While the real estate market slowly recovers after a long recession, the government doesn't benefit from this rebound due to low and outdated taxes on property. In many countries, property taxes provide the backbone of local budgets - often accounting for more than half of tax revenues in some places. But in Ukraine, property tax contribution is worth only 3% of revenues. Property owners in Ukraine are subject to three kinds of property taxes: an annual tax, a tax on the price when buying and another one when selling. All of them came into force in Ukraine in 2012, but even by 2016, the tax contributed less than 1% to Kyiv's overall municipal budget, for instance. One of the reasons for such a modest contribution is that Ukraine's property tax rate is based on the size of the property. In most Western nations, the tax is based on its market value. Moreover, owners of flats under 60 square meters and houses under 120 square meters don't pay annual taxes at all.

In the USA, the New York City Advisory Commission on Property Tax Reform, set up in May 2018, issued a preliminary report recommending sweeping reforms. The changes would base taxation and assessments on fair-market value, not fractions or percentages depending on the type of housing being assessed. Spiking prices of single- to three-family homes, co-ops and condominiums in parts of Brooklyn, Queens and Manhattan have combined with state assessment caps to give those residents lower taxes compared with home and apartment owners in stable-priced areas of Staten Island, the Bronx and other parts of Queens, the commission found. “There are going to be winners and losers,” said a former city budget director and deputy mayor. “At the end of the day, the property tax is a wealth tax.” Real estate taxes are the only major levies controlled by the City Council and produced about $26.5 billion in revenue last year. The new tax system would be “revenue neutral” meaning it wouldn’t raise or reduce the amount the city reaps from the levy. State approval will be necessary to achieve one of the panel’s key recommendations: allowing the city to eliminate or change the state’s cap on assessment increases, which are 6% a year and 20% over five years. The panel’s recommendations are the first step in what city officials expect to be months of public hearings and debates. Officials expect a final plan by year-end.

Also in the USA, the perennial problem of Payments in Lieu of Taxes (PILOT) in Boston, Massachusetts may be back in the spotlight. The City Council is said to be embarking on an aggressive effort to squeeze more cash and community benefits out of tax-exempt “eds and meds.” It is reported that there may be the first major changes to the voluntary program for payments in lieu of taxes since it was first put in place nearly nine years ago. Universities, teaching hospitals, and cultural institutions paid $34 million into the city’s coffers in the last fiscal year, an amount that has been rising steadily since the start of the current PILOT program. Under the current system, City officials request larger non-profits, those with at least $15 million worth of real estate, to contribute 25 percent of what they would be paying if their properties were on the tax rolls; half of that amount can come in the form of credit for community benefits they provide. But the PILOT Action Group, a watchdog coalition of activist organizations, reported late last summer that fewer than one-quarter of the non-profits paid the full amount requested by the city, down from the year before, and well off the peak of 48 percent in 2012. Critics say that’s just one flaw. They say most of the valuations used to calculate PILOT requests haven’t changed much since the program’s inception. The same can’t be said of the property evaluations used to calculate the bills of residential taxpayers. Another concern is the community benefits portion. Hospitals already have some industry-specific guidelines, but not colleges and universities. Some say they would like to start a public dialogue to determine whether these big institutional players should do more to address crises that the city faces, such as opioid addiction or inadequate affordable housing. Then there is the issue of “institutional creep:” As the big schools expand their land holdings, more properties fall off the tax rolls. The debate continues.

In Canada, it is reported that Vancouver businesses still shoulder an unfair property tax burden. Thanks to a city council vote in December, Vancouver homeowners face a 7% property tax increase this year - the highest in recent years - that city staff say will add an extra $100 to $200 to a typical homeowner’s tax bill. Officials say that businesses large and small have long had to pay far higher property tax rates than those that residents have faced. In 2019, businesses paid a 0.427% property tax to city hall compared with 0.134% for homeowners (those rates don’t include property taxes levied by the province or regional district). In fact, as noted in a recent study, the total combined municipal-provincial property tax rate on

Vancouver commercial businesses was more than 3.5 times higher than residential rates last year. This ratio increases to 3.6 to one for light industry and to 14.3 to one for major industry. In theory, taxes should reflect clear principles - such as “user pays” - that aim to broadly align the costs for services with those consuming them. For example, parking meters are designed (in principle) so only parkers pay the cost of providing parking. But unfortunately, where business taxes are concerned, there’s no clear connection between the taxed and their rates. It remains unclear why businesses - regardless of size and industry - face tax rates several times higher than their residential counterparts. Moreover, on several occasions the City of Vancouver has analyzed the consumption of tax-supported local services and found that businesses - as a whole - consumed far less in city services than residents, despite contributing disproportionately to city coffers. To ensure democratic accountability between the taxman and taxpayers, municipal and provincial governments must present a clear rationale for property tax rates. In Vancouver, it is said that such rationale proves elusive. Vancouver city hall is beginning to acknowledge the profound problems with its property taxes, the city’s largest revenue source. Last summer, the council approved a 2% “tax shift” over three years, from non-residential to residential property classes. However, this is said to be only one small step towards addressing the problem, and only one of a suite of available options, which include greater dependence on user fees, where possible, for service provision (rather than higher taxes) and greater government efficiencies to stem growing municipal expenditures.

In Australia, it is reported that the New South Wales Government will foot the bill for this quarter's council rates as part of their response to the bushfire crisis. People who have lost their home or business will be able to take their rates notices to a Service NSW centre and rates will be waived, or refunded if they have already been paid. Sending out rates is a legal requirement for councils and the Minister for Local Government said changing legislation would have been clunky and time-consuming. "It's a cruel, absurd situation where you send them a rates notice for a property that's burnt to the ground," she said. "They shouldn't be paying rates where they have no council services, no water, no sewerage, and it will be a while before they have a home to live in." The State and Federal Government have committed to a 50-50 split for the cost of the clean-up from the bushfires. The cost is expected to run into hundreds of millions of dollars. The Federal Treasurer said the cost would normally be undertaken by insurance companies as part of household cover, but now that the government will meet that cost it should leave more money to engage the rebuild. "The money will be spent on removing the fire debris from around houses that have been destroyed, commercial buildings that have been destroyed, and a whole range of other services involved in the waste disposal as well," he said. The NSW Deputy Premier said the government would also offer fee relief to local councils for development applications in bushfire-affected areas. "The NSW Government has been working closely with bushfire-affected councils and communities on options to facilitate the recovery and rebuilding process," he said. "I can confirm the NSW Government will waive applicable government fees, effective immediately, on all development applications related to dwellings damaged or destroyed in the recent bushfires. This meant local councils were not required to collect the planning reform fund fee when development applications are lodged.

In New Zealand, the High Court has dismissed an application for a judicial review of Auckland Council's targeted rate for accommodation providers. The rate - charged to hotels, motels, serviced apartments, and Airbnb and Bookabach accommodation - is used to fund the operations of Auckland Council's tourism arm. Legal proceedings were launched in May 2018 following the introduction of the rate in 2017. Tourism Industry Aotearoa (TIA) said it was disappointed with the decision. "TIA has consistently argued that the rate is unfair, as hotels receive only a small portion of visitor spend in Auckland. "Many other businesses also benefit from tourism, but they are not facing this extra impost at a time when tourism is slowing." Auckland-Tamaki-Makaurau hotels reported an average occupancy of 82 per cent, the lowest occupancy in the city for the last five years, according to TIA. "The slowdown will be exacerbated by the coronavirus outbreak and, with no new major events scheduled in Auckland this year, hoteliers are not expecting to see any significant improvement in their bottom line." In August 2018, the council faced a revolt over its newly-imposed "bed tax", asking Airbnb owners to pay thousands of dollars more in rates, with some facing increases of between 200 and 300 per cent. Many began lodging appeals after the financial impact was revealed when thousands of property owners received new Auckland Council rates notices following last year's triennial property revaluations. There are an estimated 8000 properties in Auckland which are listed on Airbnb alone. Information supplied by the council said that a $1m property in a prime Auckland location which was making this amount was liable for a bed tax of around $6700. The bed tax is one part of a “double-whammy” in new costs for homeowners who rent properties on Airbnb. They are also being charged at partial or full business rates, rather than residential rates to bring them into line with motels and hotels.

Moving on to South America, a number of Brazilian cities are passing laws that offer tax deductions or exemptions for citizens who want to help to restore the health and beauty of their communities. Whether by increasing tourism, restoring historic city centers, or boosting beautification by planting trees and maintaining their lawns, there are several ways residents of Goiânia, Belo Horizonte, Quinta do Sol, or Saraba can reduce their Brazilian property tax (IPTU), by anywhere between 30% and 100%. Shopkeepers in Goiânia can receive a 2-year exemption from the IPTU if they help restore the original Art Deco-style of the city’s historic center by remaking their facades and storefronts to conform to the original 1950’s Parisian-inspired character. In the city of Quinta de Sol, the Rescue Program for Abandoned Dogs is a measure to encourage citizens to adopt stray dogs in exchange for a tax break. Dog lovers can get 50% off their tax bill for big dogs, 40% for medium-sized dogs, and 30% for miniatures. Sabara is offering anyone looking to save some money on their IPTU a 5% deduction for every jabuticaba tree they plant in their front or back gardens. In the cities of Belo Horizonte and Minas Gerais, a homeowner can get an IPTU exemption if they maintain a wild garden on their property. An imaginative use of property tax breaks!

And finally, and also in connection with property tax breaks, it is reported that the world-famous magician, David Copperfield, has won his fight with the government over a $2 million property tax bill involving his private resort in the Bahamas. The dispute is reported to relate to property tax breaks and other concessions allegedly offered by the government in respect of additional islands he acquired if certain conditions were fulfilled. The issues appear to relate to the making and fulfillment of the offer. However, anyone who can make such a large property tax bill simply “disappear” must truly be a great magician!

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