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International Property Tax Institute

PRESIDENT'S MESSAGE

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Unfortunately, yet again, I must start this newsletter with reference to the coronavirus, COVID-19, and the huge impact that it is continuing to have on all our lives.

Many of us remain in some form of "lock down" where we are required to stay in our homes and are only allowed to venture out for a few limited purposes. Those who can are working from home, but many others face uncertainty about their jobs once the pandemic is under control. A large number of businesses have had to close, and some may not reopen. The impact of the virus and the associated restrictions are having a devastating effect on both lives and the global economy, and it is not over yet. There is going to be a substantial cost and long-term impacts that we can only speculate about at this stage, but it is likely that our lives will never be quite the same again.

The tragic death toll and substantial impacts of the pandemic on people and businesses around the world will leave a lasting legacy. Of course, our main concerns are with the short-term and, in particular, finding a vaccine to combat the virus. And, at the time of writing this note, there are some early, positive signs that things may be getting slightly better. Both the number of new cases of the virus and the number of deaths are beginning to slow down. Some countries are tentatively lifting some of their restrictions imposed to combat the virus, but there are concerns about the risk of a second wave of infections if we try to return to some kind of normality too soon. Let's hope that a vaccine can be found as soon as possible and we can all return to the "new normal", whatever that may be.

I have every sympathy for those in governments around the globe who have to make the key decisions on when and how to make changes that seek to balance the need to minimise the risks of allowing the virus to spread rapidly again with the need to try to get economies restarted and allow people to enjoy the kind of freedoms we have been used to for so long. Of course, I also have every sympathy for all those affected by the virus, directly or indirectly, whether as individuals, families, employees, the self-employed, employers, businesses large and small, etc.; it is a difficult time we are living in with an uncertain outcome.

Returning to our world of property taxes, there is another set of difficult decisions to be made by those trying to balance the adverse economic impact of the lock down measures on people and businesses with the need to generate sufficient revenue to continue to provide essential local services, the demand for which has increased in many cases due to the pandemic.

Most property taxes support local governments many of which have introduced some form of tax policy changes to reflect hardship, i.e. payment deferrals, tax rate/bill freezes, penalty removals, etc.

Of course, the position at local level reflects the same issues at national and, indeed, at international level. How can a public sector body continue to provide the necessary level of services whilst, at the same time, seeing its revenue fall due to limited ability to pay on the part of its taxpayers? The answer, at national level, is to borrow money and huge sums are being obtained in this way at present; the “price” we will all have to pay in future to repay this amount of debt is, of course, a great concern.

However, at local level, many municipalities do not have the flexibility or resources to allow them to generate substantial additional funding through borrowing so, unless they are given significant additional funding from higher levels of government, they have no alternative but to try and maintain property tax revenue or cut services. The stresses and strains of the position are all too clear.

Many jurisdictions are also considering some form of assessment policy changes such as deferring revaluations, changing the key dates at which properties are valued, etc. IPTI has been involved in providing advice to some assessing agencies around the world on the options available to respond to the impact of the restrictions on property markets and property values.

One of the interesting issues that has been highlighted by the responses being taken in connection with property tax systems around the world is the difference between tax policy and assessment policy. Quite often, the distinction between these two types of policy is “blurred” which, in turn, creates confusion both in the minds of policy-makers and property taxpayers.

As a sweeping generalisation, it is easier and quicker to make tax policy changes, e.g. to change tax rates, etc., than it is to change assessment policy, e.g. to amend legislation to move the date of a revaluation. Much depends on the flexibility that exists within a particular property tax system, but the response to the pandemic has shown the importance of having a clear understanding of the “tools” available to deal with changes and the need for swift action where necessary.

One of the few “positives” that may come out of the pandemic is not only, at a high level, a greater appreciation of the work done by hospital staff and others who put their own lives at risk to look after those with the virus but also, at a lower level, that property taxes have a significant role to play in providing the resources we all need, but sometimes take for granted.

Returning to the main policy decisions to be taken in respect of the response to COVID-19, whilst I have no expertise in this area, I do understand the importance of the virus reproduction rate, known as “R”, being kept below one, meaning that each victim infects, on average, less than one other person; this is key to overcoming the disease.

What politicians need to do, based on scientific advice, is to calculate how much they can ease the lockdown and keep R under one. Trying to balance the need to minimise the economic disaster that will increase if the lockdown continues with an increase in the number of deaths that will happen if the lock down measures are lifted too soon, requires the “Wisdom of Solomon” to use the time-honoured phrase.

Moving on, and just reflecting briefly on IPTI's activities, our webinars are proving more popular than ever which is another "plus" from so many people working from home in our industry.

I sat in on one webinar during April on the "Application of the Development Approach" where our two very able and experienced presenters covered a variety of approaches to establishing the market value of property suitable for development or redevelopment. They referred to the considerable difficulty in analysing sale prices, particularly when determining the appropriate discounts to make when any improvements on the sold property are not new. They also highlighted the challenges of such factors as regions experiencing rapid growth, gentrification, the infusion of foreign investment, and zoning variance approvals. Increased value was obtained through the use of "real-life" case studies where photographs and actual analysis and projections of planned development brought the topic to life.

Another online IPTI event I sat in on during April was the latest in our series of webinars and workshops dealing with various aspects of mass appraisal. This one was focussed on the need to ensure quality and provided an understanding of how to measure model results and ensure consistent and equitable predictions. Among other topics, our knowledgeable and very able presenters covered the purpose and role of ratio studies, determining the level of appraisal, horizontal equity, vertical equity, international standards, sample versus population and, perhaps most importantly, issues to avoid.

As I mentioned last month, many of our forthcoming events, particularly face-to-face conferences, workshops, symposiums, etc., have had to be rescheduled due to the current travel restrictions and social distancing requirements. However, as usual, full 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 jurisdictions and countries around the world; unsurprisingly, most articles refer to the virus.

In Canada, the problems caused by the virus, and the need to make changes to the property tax system, are mentioned in an article concerning Saskatoon. It said that the COVID-19 pandemic has devastated Saskatoon's economy, forcing countless businesses to lay off staff and close their doors and others to find new, contactless, ways of operating. The city's hotel industry has been particularly hard hit by travel bans and prohibitions on large events. While some are still operating, all have seen their revenue streams flatline. "It's catastrophic," said the head of the Saskatchewan Hotel and Hospitality Association. While cash flow has dried up, fixed costs are still accumulating. Many staff members have been temporarily laid off for 12 weeks under new provincial legislation, but those costs are still significant. A large downtown hotel could be liable for upwards of $500,000 in property taxes each year, and utility bills can easily cost a similar facility thousands of dollars per month. In the early stages of the pandemic, the City of Saskatoon unveiled a suite of emergency measures aimed at easing the financial pressure on businesses and residents. Those included a three-month penalty-free property tax and utility bill deferral, but the industry - which doesn't expect a surge in business when restrictions are eased - requires far more. "Deferrals simply put off the inevitable," their spokesman said, adding that "while hoteliers are grateful for the three-month grace period, that doesn't solve the problem of a large bill coming due in the fall. Unless we have forgiveness on many of the expense lines, we simply won't survive. There won't be a 'make it through' when you're talking about tens of thousands, or hundreds of thousands, of dollars."

Staying in Canada, the Government of British Columbia announced that it is reducing most commercial property tax bills by an average of 25%, along with "new measures to support local governments facing temporary revenue shortfalls," as a result of the coronavirus pandemic. "We know that BC communities and businesses are suffering from the economic impacts of COVID-19," said the BC Finance Minister. "We are providing further support by making additional temporary property tax changes to provide province-wide relief for business and local governments to help weather the pandemic, continue to deliver the services people count on and be part of our province's economic recovery." She said the province is also taking "significant new steps" to support BC businesses, non-profits and other organizations through the COVID-19 pandemic by further reducing the school property tax rate for commercial properties to achieve an average 25% reduction in the total property tax bill for most businesses, providing up to $700 million in relief. In addition, the government is also postponing the date that late payment penalties apply for commercial properties in an effort to give businesses and landlords more time to pay their reduced property tax, without penalty. And, in response to what it said are "key concerns" from local governments, the province said it is addressing cash flow and revenue shortfalls with new measures that provide additional support. These measures, it said, include: authorizing local governments to borrow, interest-free, from their existing capital reserves to help pay for operating expenses, such as employee salaries; delaying provincial school tax remittances until the end of the year; and providing local governments greater flexibility to carry debt for an additional year. Changes to British Columbia's property tax framework complement federal measures and build on the $5 billion BC COVID-19 Action Plan that provides income supports, tax relief and direct funding for people, businesses and services.

In the UK, it was announced that businesses are expected to receive almost £10 billion in business rate (property tax) relief as part of the government's comprehensive package of support for the economy during the coronavirus pandemic. New statistics published by the government show the business rate relief predicted by councils for businesses across England in the retail, hospitality and leisure sector. It means that those which may be the hardest hit by the pandemic, such as eligible shops, restaurants, cafes and pubs, will pay no business rates whatsoever this financial year. The government has committed to compensating local authorities in full for the business rate relief with payments due to begin shortly. The news follows the announcement that £3.2 billion of extra funding is being given to councils, helping them continue to provide essential services and support to those who need it most. The Minister for Local Government said: "This government has announced a comprehensive programme of support for business to help them deal with the economic impact caused by the COVID-19 pandemic, including providing 100 per cent rate relief for the retail and leisure industry. It is great that councils estimate they will provide almost £10 billion in additional business rate relief this financial year. This will provide businesses with a much-needed boost at this unprecedented time and builds on over £6 billion already awarded to business in grants announced earlier." In the Budget last March, the government announced it would take the exceptional step of increasing the Business Rates Retail Discount to 100% from 50%. This, and the measures announced in response to the coronavirus, take the value of the Expanded Retail Discount and the Nursery Discount to £10.1 billion in 2020/21. This support comes as part of a wider package of measures to help businesses to deal with the economic impact of the virus. It includes a £12.3 billion package for local authorities to deliver grants of up to £25,000 to eligible businesses and a commitment to pay the wages of millions of employed and self-employed people by covering 80% of monthly incomes through the Coronavirus Job Retention Scheme and the Self Employment Income Support Scheme.

In New Zealand it is reported that Auckland Council is bleeding tens of millions of dollars from the impact of COVID-19 and is drawing up plans to help financially-stressed households and businesses pay their rates. From a strong financial position before the lockdown, the Super City is facing a net revenue loss of between $150 million and $350m over 15 months, according to confidential papers made public by the council. The papers show the balancing act councillors face between the need to maintain essential services, promote economic growth, and escalating financial hardship facing households and business. After a marathon meeting of the emergency committee, the Mayor and many of his leadership team agreed to consult the public on a 2.5 per cent rates increase alongside the planned increase of 3.5 per cent. Officials have also been sent away to consider the impacts of a zero rates rise on services, staff numbers, business and the council's treasured AA credit rating which, if breached, could lead to higher interest rates for debt, forecast to hit $9.6 billion by the end of June. The immediate problem is the last quarterly rates bills, which are due by May 28. "Meeting this obligation will be a challenge for ratepayers who are already financially-stressed and who haven't paid in advance," officers said in a report to the audit and risk committee. They have proposed giving ratepayers a penalty-free extension until 31 August to pay their last instalment, which will coincide with the first instalment of the new financial year. Under this proposal, between $30m and $125m of the $393m of rates due in the final quarter could be deferred. The council is developing a number of options for ratepayers having difficulties paying their rates, including a payment plan and the existing rates postponement policy. Another proposal going out for public consultation is postponing the accommodation-provider targeted rates, also known as the "bed tax", for one year in recognition of the devastating blow to hotels and motels from the collapse in tourism.

In the USA, one Assessor in a county in Tennessee has a plan to help property owners during the coronavirus crisis: lower the assessed value of businesses that have closed because of COVID-19, update the market value of real estate in the county, and broaden eligibility for tax relief. He said it was unfair that people were being charged property taxes calculated in relation to values derived from market conditions that no longer exist. The current assessments, on which property taxes are based, were conducted over the course of the last year, he said. Those values were determined by a set of key factors - including the property's age and location - and sales in the area over the last three years. The housing market has begun to show the signs of a COVID-19 slump. But, he said, in order to act, the Assessor's office first needs permission from Tennessee Comptroller of the Treasury and then the approval of the County Commission at a time when local governments are desperate to maintain their revenue. Without taking into account lost property taxes, the National Association of Counties found a $144 billion impact on county budgets nationwide through the 2021 fiscal year in a recent study - "Running on Fumes" - on the consequences of COVID-19 on county finances. "County budgets are being stretched to the limit, fielding 911 calls, overseeing emergency operation centers and administering human service programs for millions of newly unemployed residents" it was said. The Assessor in Tennessee recognizes that relief for taxpayers will translate to less money for local government, but he said it's crazy not to recognize that property owners are going to take a hit. "Homeowners are out of work, small businesses are closed; very clearly, local property values, sales volume, and taxpayers' ability to pay their property tax obligations will be negatively impacted by this crisis" he wrote. As elected officials, the 95 county assessors in Tennessee are tasked with locating, classifying and appraising all taxable property in accordance with state law. The Comptroller's office oversees each of them. It was pointed out that a smattering of state and county jurisdictions in California, Florida, Washington state and West Virginia have extended tax payment deadlines. And, in Cook County, Illinois, which encompasses Chicago, the Assessor recently announced plans to reassess property values across the region.

In South Africa, property landlords have joined a call on the City of Cape Town to freeze rates and provide tax relief. They said this would help their tenants survive the lockdown and its aftermath. In an open letter, commercial property owners, who are struggling through the recession, said they would not be able to pay dividends or buy real estate this year, but their main concern was managing debt and paying staff. The owners, who collectively own R20 billion worth of real estate in Cape Town, sent letters to the City pleading for a rates (property tax) freeze. It said "We cannot ignore this, if we cannot provide relief to our residents, especially in the face of a health crisis that will damage our economy. Essentially, if we cannot get meaningful relief, we cannot pass any meaningful relief on to our tenants, who predominantly operate small to medium-sized businesses. The bottom line is that if we landlords give in to every request - or not receive any rental - and are still expected to pay rates, our own businesses are faced with the reality that we might not survive." The council responded by saying, "The City is looking at all options for assistance that are legal, tailor-made and will not lead to the municipality running out of money and hence stopping essential service delivery such as refuse collection, water and sanitation, health services, electricity services. It cannot afford a blanket relief programme and each case will have to be investigated. Rates and service charges comprise an amount equal to 72% of the City's income per month. Take this away, for a short while and even some months, and the City ceases to exist."

The articles referred to above are typical of the range of reactions to the pandemic; for more information, please refer to IPTI Xtracts on our website: http://www.ipti.org/ipti-xtracts/

And finally, a story that, whilst it does not concern property tax, I wanted to share with you as it provides not only a glimmer of hope in our otherwise rather bleak existing world, but also involves a true "hero". In case you have not heard about him, in the UK we have an old soldier, Captain Tom Moore, a war veteran who, at the age of 99, walked laps of his garden, with a walking frame, to raise money for the UK National Health Service (NHS). Captain Moore, who lives not far from me in a village in Bedfordshire, had originally aimed to raise just £1,000 by completing 100 laps of his garden, as a thank-you to what he described as the "magnificent" NHS staff who helped him with treatment for cancer and a broken hip. But he easily surpassed his target after his challenge went viral and he has now raised around £30 million. He has been interviewed countless times and retains his charm, modesty and appreciation for all who have supported him. He even made it to number one in the music charts with his version of the well-known song, "You'll Never Walk Alone". He is a real inspiration and it is wonderful to see people's response to him. His 100th birthday was on 30 April and, on behalf of all at IPTI, I want to wish him a very happy birthday.

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