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PRESIDENT'S MESSAGE

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The biggest news story inevitably continues to be the fight to control the spread of the coronavirus, COVID-19, but there are now some positive signs that the worst of the pandemic may be behind us and the various restrictions on businesses and individuals around the world are beginning to be lifted.

Looking at property tax administration, as I have mentioned in recent newsletters, one of the current issues concerning assessing jurisdictions is whether or not to proceed with scheduled revaluations and, if so, how to quantify the impact of the restrictions imposed to limit the spread of the virus - assuming the relevant valuation date relates to the post-March 2020 period - with so little reliable evidence of market value being available due to the limited number of transactions taking place.

No doubt the position will become clearer over the coming months, but I suspect it will take a long time before property markets return to anything like normality.

Moving on, one of the perennial debates concerning property taxes is the use and impact of the many and varied forms of incentives; in particular, are they effective in achieving their objectives? One recent report looked in some detail at the situation concerning the incentives provided to a particular large corporation and it makes for interesting reading.

The report states that, over the course of 30 years, the taxpayers of Illinois in the US gave a well-known retail company the equivalent of more than a half-billion dollars in tax breaks and incentives to locate its headquarters in a suburb of Chicago known as Hoffman Estates. In return, the retailer agreed to provide good-paying corporate jobs and return millions of dollars in tax payments. However, to consider whether or not the deal was worth it, a study was commissioned to examine 40 years of economic data.

The results found no evidence that the massive package of tax incentives made a long-term difference to the economic well-being of Hoffman Estates compared to that of other similar nearby suburbs that did not make such corporate deals.

Instead, the study found that nearby towns that were economically similar to Hoffman Estates before the tax breaks, which began in the 1990s, remained pretty similar to Hoffman Estates today. Measured by economic indicators such as property values and employment, Arlington Heights, Downers Grove, Elgin, Palatine, Schaumburg and Wheaton all grew at roughly the same rate as Hoffman Estates.

The study also found no evidence of a lasting impact on Hoffman Estates. A short-term spike in property values did not endure beyond the initial 10 years of the project. The retail company's effect on Hoffman Estates' labor force was negligible, despite predictions that the company's arrival would prompt a massive influx of new jobs.

However, presented with the study's findings, Hoffman Estates Mayor and the village's corporation counsel, said that statistics didn't tell the full story. Without the tax incentives, the company would not have come to Hoffman Estates in the first place, they said. They pointed to the overall growth of the value of the land where the company built its corporate campus and developed a business park and entertainment district. In 1989, the property value of the land around the site was $6.4 million. By 2018, the figure was slightly under $242 million.

"That's an awful lot of money," they said and noted that the growth funded infrastructure which allowed potential development on thousands of acres of land in and around the campus. "You've got the water mains, you've got the sewer mains. And, you know, we still have all that vacant land out there yet."

The study says the mayor might be wrong to assume there would have been no development without this particular deal. The two villages studied have much in common. Both have a population of about 50,000. Both are predominantly white. Both have a median income of around $85,000. They have good schools and lots of parks, low crime and well-stocked libraries.

They said that the villages have differences; Downers Grove is an older town with a traditional downtown shopping district whereas Hoffman Estates' amorphous sprawl defines the modern suburb. But over the past 30 years, the local economies of Downers Grove and Hoffman Estates have neatly matched each other. Property values have risen and fallen. Businesses have come and gone. Unemployment rates have fluctuated.

During that time, Illinois and Hoffman Estates officials gave the company its huge tax breaks and subsidies. Downers Grove, on the other hand, managed to attract several big companies while providing only $28 million on special tax districts and other incentives there.

All told, in 2017, the most recent year examined by the study, Hoffman Estates had more than 15% percent of all its taxable property tied up in special tax districts, nearly all in the development area created for the company. By comparison, Downers Grove had only 2.6% percent of its taxable land devoted to such districts. Most of the growth in tax revenue can only be used to make improvements within the boundaries of the districts. In fact, none of the six suburbs studied spent close to what Hoffman Estates did on corporate tax breaks. None gambled on one single corporation. And yet all managed to economically prosper.

A critic stated politicians base their faith in tax breaks on two unproven assumptions. First, they assume that a company would not relocate to a city without incentives. And second, that no development would have happened without the tax breaks. From IPTI's perspective, it is clear that opinions differ on the effectiveness of property tax incentives which is why it is particularly interesting to see the outcome of a detailed objective case study on the issue.

Moving on, IPTI has announced that, in addition to the 2020 Mass Appraisal Valuation Symposium that was due to be held in Calgary being moved from June this year to June next year, we have also postponed our annual Caribbean conference that was due to be held in Trinidad in November this year. Both these postponements have been made due to current restrictions on international travel and social distancing requirements that mean such face-to-face events cannot be undertaken. Details of the rearranged events will be posted on the IPTI website in due course.

On a more positive note, IPTI has provided, and is offering, significantly more online events including webinars and workshops. One of our most recent webinars was the final part of the series of events we have provided relating to mass appraisal. This one involved our experienced presenters looking at the evolution of property valuation tools, where we are currently with the latest developments in automated valuation models, and where we are likely to be going with advances in artificial intelligence and machine learning.

IPTI is moving on to a series of online workshops relating to the practical aspects of mass appraisal valuation modelling which will build on the guidance provided in the webinar series and will enable participants to gain hands-on experience in developing models for different types of valuation. Full details of these online workshops, along with all other webinars we will be offering over the coming months, are available 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.

In the USA, state and local government budgets across America are reeling from the pandemic's economic blow. One article looked at the position in Chicago, which is very similar to many other jurisdictions, but faces particular problems. Prior to the pandemic, the city was already struggling to deal with the city's $838 million deficit for this year. When COVID-19 struck, everything changed. It will be weeks, months, even years, before Chicago taxpayers know the full impact of the coronavirus crisis on public services and on their businesses and individual's wallets. Chicago is in line for about $1.6 billion in federal stimulus money from the federal CARES Act, but with a $10 billion budget to balance, City Hall officials will have a big task ahead of them. Before the pandemic hit, city officials had already projected budget shortfalls beyond 2020's historic budget gap. Assuming a stable economy and little to no changes in revenues and expenses, budget documents predicted a $1.187 billion deficit for 2021 - one of the largest in the city's history. "There is no doubt that the pandemic will have an impact on the city's economy, but we can't know to what extent until we come out of this health crisis," said a budget spokeswoman. Property tax is the largest revenue stream, but stability is in question. As businesses shut down, unemployment rises and people struggle to pay their rent or mortgages, property taxes are going to be hit. Moving on, under the city budget, there's a section of revenue labeled "recreation taxes" that include extra charges on liquor, cigarettes, boating and concerts. The biggest money maker in the category is the "amusement tax." That's a catch-all phrase for the tax the city charges on a diverse set of amusements, from concerts to baseball games. But nobody is gathering right now in groups of more than 10 people, much less groups of 10,000. However, there is some good news according to a spokesperson, "Our amusement tax - 30% of it is from streaming fees. And a lot more folks are streaming whilst they are in lockdown."

In the UK, a recent report posed the question, "COVID-19: will tax reform be the silver lining or the missed opportunity?" It stated that we are living through an unprecedented economic crisis. The UK government has responded with an unprecedented package of support. Fiscal measures have run up a price tag of over £100bn in just a few months. Over half of this will be spent directly supporting incomes. Around £30bn is being spent on cancelling business rates bills and providing cash grants for some firms. More will be spent if tax deferrals result in less tax being paid or loans are defaulted on. And all of the spending on the specific measures announced in response to COVID-19 will come on top of the rise in benefit payments and fall in tax revenues that naturally result from an economic contraction. Given that we have effectively shut down large parts of the economy, we expect the fall in revenues to be huge, and to have persistent effects as, for example, the carry-forward of losses depresses future revenues. In the coming months, the government will have to decide whether to extend any of the current measures, either for a longer period or to cover more people or businesses. As the health crisis eases and lockdown is relaxed, there will undoubtedly be calls to use the tax system to help revive certain industries or parts of the economy. There may or may not be a case for some targeted fiscal stimulus - and a role for tax within that - beyond the effects of removing current constraints on activity. It is too early to say. There is uncertainty about the ultimate economic price tag of the COVID-19 crisis, but it is already huge, and it could get much bigger. It is certain we will be left with a much larger government debt and a debate about the extent to which taxes need to be raised. We entered the crisis with tax revenue already at its highest share of national income (34%) since the early 1980s. But we have also just had a decade of austerity in public spending and have an ageing population that is demanding more, and more expensive, healthcare. This crisis will lead to further demands for spending on health, social care and the social safety net. The government always has a choice over the size of the state, but the crisis undoubtedly increases the pressure for higher taxes in the long run.

Decisions about the extent of support measures in the short run, and in the longer run how much tax to raise and from whom, are critically important. Ultimately, they will determine how the financial pain created by COVID-19 is shared between different people and across different generations. Decisions about the structure of taxation are equally important. Changes in patterns of work, transport and consumption that last beyond the immediate crisis might throw up new issues for tax policy. There are also areas of tax that were already in need of reform and have been highlighted by the crisis. In this year's Budget the government announced a fundamental review of business rates. One of the objectives is 'reducing the overall burden' of the business rates system, recognising concerns about its impact on the high street. The concern that business rates are killing the high street is vastly overblown. While business rates may appear to give online retailers a competitive advantage relative to those operating high street shops (and therefore paying more business rates), looking at the business rates bill in isolation gives a misleading picture. In the long run, business rates lead to lower rents (such that they are effectively paid mostly by property owners rather than occupiers). If we removed all business rates then, after a period of adjustment, rents would be higher and the total cost of premises little changed. Online competition may be a significant threat, but the existence of business rates is not driving high street decline.

In contrast, COVID-19 has actually killed the high street, at least for now while social distancing measures are in place. The government has responded by providing 100% business rates relief for businesses in

England in retail, leisure and hospitality, plus an additional £25,000 cash grant if the premises they occupy have a (2017) rateable value between £15,000 and £51,000, or a grant of £10,000 for those businesses (the majority) in any industry if their premises are worth less than that. Similar measures have been introduced in Scotland, Wales and Northern Ireland. Taken together, some businesses will receive over £50,000 in grant and business rates relief. These measures cost £28bn, almost as much as a full year's business rates revenue in normal times. As temporary measures go, these are fairly well targeted at the businesses that are in most need of support.

Now that the current generous relief has been introduced, there will undoubtedly be a clamour to keep it at least in part for the longer term - adding to the pre-existing pressure to reduce business rates. Such siren calls should be resisted. If social distancing measures extend, in some form, into the next tax year, there may be a case for phasing out support gradually and avoiding large jumps in tax bills when the relief expires next April. But keeping relief in place for the long term would be expensive, and decreasingly effective as rents would rise, or perhaps not fall as they otherwise might.

After the crisis, we need to move away from temporary reliefs and look to reform business rates properly: not simply the level of the tax but, for example, how that level should change as rents do, and how to reduce the disincentives the existing system creates to develop and invest in business property. The review announced in the Budget is explicitly intended to address such fundamental issues as well as reducing the overall burden of the tax. It is currently due to report by the autumn, and whether that timetable is stuck to or extended in light of current circumstances, the review looks opportune. Again, the COVID-19 crisis and the radical measures taken in response could provide the impetus to think radically about reform. The report concludes, "It would be a shame to let a serious crisis go to waste."

I have quoted more extensively from this report than usual because, although it relates to the UK, many of the issues it addresses are reflected in other countries around the world.

A similar approach, i.e. looking ahead to what post-pandemic property tax changes might be made, is being considered in Australia. A recent report states that stamp duty has emerged as most ripe for reform as governments consider how to improve the tax system after COVID-19. Amid the economic fallout from the coronavirus pandemic, policymakers are looking to the future and to what Australia's tax system will look like in coming decades. The Reserve Bank governor has urged an overhaul of taxes to remove impediments to Australia's economic recovery. In his ministerial statement on the economy, the federal Treasurer confirmed that tax reform is being considered alongside a host of other economy-boosting measures such as infrastructure spending, skills programs and industrial relations reforms. But of all the taxes imposed by governments, state and federal, one tax has emerged as the most ripe for reform: stamp duty. A decade on from the Ken Henry tax review, which recommended stamp duty be abolished in favour of a broad-based land tax, state treasurers are mounting a fresh push to abolish the unpopular tax, which adds tens of thousands of dollars to the cost of buying a new home. State governments abolished some stamp duties as part of the introduction of the GST (goods and services tax) in 2001, but stamp duty remains a large source of revenue for all state and territory governments, accounting for 30 per cent of the self-raised taxes of NSW, Victoria and Queensland. State treasurers are pushing for an end to stamp duty because it has proved a highly volatile source of revenue for them - rising during property booms and evaporating during property busts. Economists back up the treasurers, decrying stamp duty as an "inefficient" source of revenue. Former Treasury secretary Ken Henry is more blunt, "It's just a bad tax," he said earlier this year. Abolishing stamp duty overnight would leave a huge hole in the finances of all state and territory governments. So, if it is to be abolished, alternatives must be found. The most commonly discussed methods of plugging the revenue hole left by stamp duty is either a broader land tax or an increase in the scope or amount of GST - or some combination of all three. Economists like land taxes because they are hard to avoid. Most, although not all, also like the GST because it is also somewhat hard to avoid - everyone needs to buy things. Australia's GST rate of 10 per cent has been unchanged since it was introduced in 2001 while other countries have increased theirs, including New Zealand with GST at 15 per cent. Political wisdom is that increasing the GST or imposing a new land tax would be wildly unpopular. But the imperative for growth and job creation is paramount. According to the Treasurer, "There is no better time to rid the states of inefficient taxes that hold back economic growth."

The Armenian government recently announced plans to sharply increase the presently modest taxes collected from homeowners. A bill approved by the cabinet calls for particularly drastic increases in property taxes paid by rich or affluent Armenians. "Today, there are luxury villas which, for example, pay 800,000 drams (approx. US$ 1,650) in property tax each year," said a spokesperson. "They will have to pay 15 million drams (approx. US$ 31,300) after we change the law. It's obvious that for such homeowners 15 million drams is not a big deal." According to the International Monetary Fund, proceeds from these taxes are currently equivalent to just 0.2 percent of Armenia's Gross Domestic Product, a very low proportion not only by Western, but also ex-Soviet standards. The government expects to significantly increase them without changing the existing progressive tax rates ranging from 0.05 percent to 1 percent. It wants to change instead the methodology of calculating the value of properties, which is currently based on their cadastral valuation by a government agency. Under the government bill, the Cadaster Committee would determine property values on the basis of their market value. The head of the committee said that the agency will launch an electronic database that will enable every homeowner to see the price of their property and the calculated amount of their tax obligations. The bill would introduce a complex progressive scale of taxation. For example, the owners of small apartments worth an estimated 23 million drams (US $48,000) would pay 18,000 drams (US$38), while ownership of larger properties that cost 58 million drams (US$120,000) would translate into 108,000 drams (US$225) in annual taxes. The Finance Minister estimated that Armenia's property tax revenue, most of it directly channeled into local community budgets, would more than quadruple as a result. He said local communities would therefore be the main beneficiaries of the bill approved by the government.

And finally, a footnote to last month's newsletter mention of Captain Tom Moore, a war veteran now 100 years old, who single-handedly raised over £30 million for the UK's national health service through walking sponsored lengths of his garden with the help of a walking frame. Not only has he been made an Honorary Colonel, he will be given a knighthood by the Queen for his exceptional efforts. "Arise Sir Tom" will prove to be a very popular phrase with people around the world for a very special individual.

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