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International Property Tax Institute

PRESIDENT'S MESSAGE

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The fact that I am not starting this newsletter with the latest on the coronavirus, COVID-19, does not mean that its impact is in any way diminished; it is simply that everyone is only too well aware of the effect that the pandemic is continuing to have on property markets, property values and property tax systems.

Instead, I want to start with a somewhat controversial issue that has recently demonstrated what most property tax practitioners are well aware of - you can't take politics out of property tax. I am referring to what is going on in Texas at present where it is being suggested that property taxes should be "frozen" in cities that are "defunding" their police forces following recent, and continuing, public pressure for change in the way some police resources are behaving or being deployed.

A recent article had the headline "With elections coming, Texas Republican leaders join the thin blue line" and looked at the proposals in some detail. It went on to state that the Texas Governor, Lieutenant Governor and Speaker of the House want to freeze property tax revenues in cities that cut police budgets after a summer of demonstrations against racial injustice and police violence. However, it said that these proposals were "full of holes" and a signal that politics has trumped policy, that leaders are trying to either blunt an attack from their political opponents, divert attention from their own failures, or both.

The critical commentary went on to say that, as politics, it might work. But, it continued, if it's really a policy idea, it's got a couple of gaping holes in it. The Texas Supreme Court ruled in 2005 that the state can't legally cap local property taxes for schools. The reasoning is that the state itself is constitutionally prohibited from levying property taxes, and that capping local taxes was, in effect, setting a property tax rate and was therefore unconstitutional.

And, in practice, it was pointed out that the proposal would effectively provide an incentive for voters to support defunding police by tying it to a property tax freeze; this was described as "a weird approach." The risk was that someone intending to limit local spending could get allies at City Hall to cut the police budget and freeze taxes forever; this, it was said, was easier than arguing over taxes and property valuations every year. Austin City Council recently voted to take $150 million out of the police budget, a figure that includes about $20 million in actual cuts and the rest in redirected spending on other programs. About 150 vacant officer positions were eliminated, as were three planned classes of new police cadets.

The Texas Governor branded that “a success of politics over public safety”, saying that state police will “stand in the gap” in Austin until the Texas Legislature gets to town in January. That’s what he and the two legislative leaders unveiled in Fort Worth, the article stated, and it got them a lot of headlines. And, it was said, it changed the subject, momentarily, from the three issues that have made 2020 such a challenging year for many politicians in elected office: the pandemic, the recession and the demonstrations sparked when George Floyd was killed by Minneapolis police in May. The public outcry over that death has recently been reignited by the shooting of Jacob Blake by police in Wisconsin.

The article went on to say that the three leaders also got in a “new shot” in the state’s ongoing efforts to sap the power of local governments. Mayors and county officials follow the beats of local drums, to the vigorous consternation of state officials it stated, who appear to hear other voices in their heads. Cities and counties have tussled with state lawmakers over gender-focused bathroom regulations and property tax increases, to name a couple.

Even if “Drop the budget knife or we’ll freeze your taxes” doesn’t go anywhere, the lines of debate over the summer’s demonstrations are marked and, it said, marked in time for the US election. Voters will probably be thinking about COVID-19 and their livelihoods when they go to the polls, starting in less than two months. Some will be thinking about George Floyd and others killed by police. The article concluded that some of them will be thinking about law and order, and property taxes as well.

IPTI, of course, maintains its strict neutrality in all matters concerning politics and property tax. However, we are not “blind” to the many issues that arise when politicians “interfere” with property tax systems in an effort to gain political advantage at a time of elections.

There are many examples of politicians who say “Vote for me and I will scrap your property taxes” only to find, if they are elected, that it is not so easy to replace such a reliable and stable form of funding for the local services and other facilities that people rely on. Indeed, there have been some “notorious” examples of countries where a politician was elected on precisely that basis, carried out his election pledge, and then found that property taxes had to be reintroduced to fill the funding gap left by his actions.

I repeat, IPTI is scrupulous in avoiding either criticizing or supporting particular politicians or political parties, but we do become concerned when it seems clear that policymakers are unaware of the consequences of their actions. The “law” of unintended consequences is one that many politicians seem to either ignore or be blissfully unaware of - at their peril.

Moving on from such controversial topics, I am pleased to say that IPTI continues to be very busy dealing with a variety of projects, many of which are coming to fruition in terms of final reports at the present time. One of the projects in which I am personally involved concerns the cost of providing property tax valuations and I want to express my gratitude to all those in various jurisdictions around the world who have participated in this study. One of those I must mention by name - Neil Bray, the Valuer General for Queensland, Australia. Neil informed me that he will be leaving his post in October and I wanted to use this opportunity to thank Neil for his assistance over the years and to wish him well in his new post.

And, on the topic of those who have worked with IPTI, I would like to congratulate our friends in the Netherlands working with the Netherlands Council for Real Estate Assessment (NCREA) who are currently celebrating 25 years of the Real Estate Valuation Act. The Act, known locally as the WOZ Act, first hit the statute book in 1995 and has provided a sustainable framework for the country's property tax system ever since. We are pleased to have worked with NCREA coleagues over the years and look forward to our continued relationship in the years to come.

Looking ahead, we have a wide range of online events coming up and we are continually adding more topics so please visit our website to find the latest details: 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.

A recent headline read, "Japan must avoid rise in property tax for commercial land". The reason given for this statement was that the coronavirus pandemic is hurting many companies and it would be counter-productive to increase property taxes. Japan will set next year's property tax, or the tax companies pay for the land they own, based on land prices measured in January 2020. This has raised concern that companies will face a bigger tax burden despite an expected fall in current land prices blamed on the pandemic, which has ravaged Japan's economy since then. "Companies' ability to pay tax has fallen, so we must come up with ways to avoid forcing them to pay higher tax. Given the pandemic, we need to avoid higher tax as much as we can," a commentator was quoted as saying about the property tax in a recent interview. Japan has a panel which advises the government on tax policies and plays a key role in defining how to use tax measures to cushion the economic blow from the pandemic. The panel also dismissed the idea, proposed by some lawmakers, that Japan cut the 10% rate for the sales tax - or the tax consumers pay each time for purchases - to cushion the economic blow from the pandemic. "It's a tax that is linked to Japan's social welfare system," the head of the panel said of the consumption tax. "It shouldn't be used as a policy tool to spur growth," he was quoted as saying, adding that distributing payouts to households and companies was an easier way to ease the pain from COVID-19.

In Canada, a controversial issue was recently reported. It was suggested in the media that the Canadian Mortgage and Housing Corporation (CMHC) was researching a new "home equity tax" on primary residences. According to reports, CMHC is spending $250,000 in partnership with the University of British Columbia's School of Population to investigate ways to tax the equity Canadians have gained in their homes. It should be said that the CMHC has denied that a capital gains tax on primary residences is in the works, but that has not stopped comment on the possibility. An article stated that a home equity tax would be unfair and hurtful to Canadians during the best of times, but at this very moment - during a global pandemic - it would be reckless. Across the country, people have lost their jobs or a significant portion of their income and are struggling to make ends meet. For them, their home equity could be a lifeline during these uncertain times and beyond. While the CMHC is said to have backpedalled from a home equity tax after the media uproar, they were clear that their goal is to level the playing field between homeowners and renters by making home ownership less attractive.

Their research partner at UBC has been leading the charge for higher taxes on home ownership to make owning more equivalent to renting. “Our ‘dream of home ownership’ is static and regressive,” the CMHC CEO said in a recent speech, “We need to call out the glorification of home ownership for the regressive canard that it is.” However, critics stated that homes are taxed enough as it is. Over time, they said, homes build equity. For many, this is what they rely on for retirement or a rainy day. First and foremost, it is the family home and the place of our fondest memories. But it is also a safety net and a proven investment. Home ownership was said to be an abiding Canadian value. It has proven to build stronger and more stable communities. Creating more affordable options and greater choice in the marketplace should be a focus of all governments. Increasing housing supply and accelerating the approvals process would make a big difference. Instead of being an advocate for an “ideological fad” that undermines the value of middle-class homes, critics said the CMHC should return to focusing on practical and affordable ways to support the Canadian dream of home ownership. It will be interesting to see if the idea of such a tax is now dead.

On a similar theme, there has been some talk of a “wealth tax” in the UK. It is stated that property wealth is a vast and mostly untapped source of potential tax revenue. Media reports indicate that British homes could be the new source of billions of pounds in much needed revenue for the government in the form of a wealth tax, following the economic devastation of the coronavirus pandemic. Both the UK Prime Minister and his Chancellor have attempted to stamp out any notion of a so-called wealth tax, but the stories persist. Reports state that, even in the face of the worst recession for 100 years, they have only cut taxes with a stamp duty holiday to reinvigorate a stalling property market; there has also been a cut in VAT from 20pc to just 5pc for hospitality and tourism businesses. But these, it is said, are short-term measures. Experts say tax rises in some form or another, whether they are labelled as a tax on wealth or not, are inevitable. As the economy shrinks, tax receipts will fall. One solution proffered by thinktanks is a tax on the exponential rise in property wealth. A reform of capital gains tax (CGT) or inheritance tax (IHT), or both, is the most likely route to some form of new duty on property wealth. The Social Market Foundation, a thinktank, has called for new taxes to be levied on increases in the value of homes. This is so older generations - who have benefited most from house price growth - share a larger proportion of the burden of paying for coronavirus. The young - most likely to be affected by future tax rises - should not have to unfairly shoulder the cost of recovering from the crisis, the foundation argued. It said the 100% primary residence relief from CGT on homes should be scrapped and a new 10% CGT rate introduced due on the sale of homes. The SMF also proposed scrapping stamp duty on the main home, but not on second homes. A commentator said, “If the Treasury is seriously considering an annual wealth tax, this would provide the perfect opportunity to not just reform IHT but do away with it completely. Politically, the Government would be seen to be continuing to tax wealthy estates,” he said.

In the USA, a company has filed a lawsuit against the members of a Georgia county tax board, claiming that the board’s decision to lower property tax valuations on properties near the company’s medical device sterilization plant has harmed its reputation. The federal lawsuit, filed in Atlanta, also claims that the members of the Board of Tax Assessors unfairly and arbitrarily pinned their property tax valuation decision on the company’s use of ethylene oxide (EtO) to sterilize medical devices at the plant. The county lowered assessments by 10% on properties within 2 miles of the plant, citing “environmental air quality concern surrounding the plant,” the complaint says.

The U.S. Environmental Protection Agency considers EtO a human carcinogen. Although it's been in use as a medtech sterilant since the 1960s, EtO has really only been under heightened scrutiny for little more than a year. EtO sterilization plants have shut down in Illinois, Georgia and Michigan over concerns about emissions. "As a result of defendants' unlawful devaluation of these properties, the company faces public scorn and an imminent, publicly-announced class action lawsuit on behalf of thousands of residents asserting the defendants' unlawful devaluation of their properties as the basis for their claims," read the complaint. "The defendants' unlawful action therefore has caused the company substantial reputational damage, and will cause it to suffer substantial economic harm from the imminent class action in which it will have to face substantial unfounded liability and pay substantial sums in attorneys' fees and litigation expenses to defend itself." County officials declined to comment on the lawsuit.

In Ireland, the government has announced a €7.4 billion "Jobs Stimulus" package, including property tax (commercial rates) relief, to help businesses re-open, get people back to work and promote confidence. The Taoiseach said: "The stimulus package announced today will protect existing jobs while creating new and sustainable employment options in the months and years ahead. These measures will support small and medium businesses, give young people greater opportunities in training and education, support workers who have lost their jobs because of the pandemic and rejuvenate communities worst affected by the economic impact of the virus. This is a comprehensive plan which will boost the economy and bring confidence back to towns and villages across Ireland. The July Jobs Stimulus will provide a boost to the economy, building confidence and moving us towards a more sustainable future across all of our regions. This is the next stage of the national recovery and will immediately build on the billions in supports already provided during the crisis." The waiver of commercial rates is extended until end-September 2020.

The Greek government plans to make buying property in Greece easier for foreigners. New incentives for foreigners with means to live in Greece are being considered by the New Democracy government. The government, eager to get the economy going again to offset the damage of the coronavirus pandemic, wants to make it cheaper for people to relocate to Greece through a range of attractive measures. But some are sceptical about the taxes, especially the hated ENFIA property tax surcharge imposed during the bailout years - the 362 billion euros ($383.9 billion) in rescue packages ended back in 2018, but the tax is still there. Among the thoughts, the paper said, is to raise the tax-free ceiling on the supplementary tax included in ENFIA so as to bring the total property tax down to levels closer to European Union levels. The ceiling is 250,000 euros ($294,823.35) and may be increased to as much as 350,000 euros ($412,752.55) and the supplementary tax will be abolished once ENFIA comes under the jurisdiction of municipal authorities as of 2022.

Back to the UK, and the Prime Minister is under pressure to extend the property tax "holiday" for non-residential properties (business rates) to help firms survive. The Mayor of London has warned that companies are facing a "perfect storm" from home-working, social distancing and the collapse in tourism. He has urged the Prime Minister to guarantee an extension to the business rates holiday now to help ensure the survival of firms hard-hit by the coronavirus pandemic. This is among a raft of measures being called for by the Mayor of London in a letter to the Prime Minister, including a targeted continuation of the furlough scheme for sectors struggling in the face of the COVID-19 crisis. He made his plea following confirmation the UK had fallen into its largest recession on record with figures showing 730,000 jobs had

been lost since the coronavirus lockdown began. London's West End has forecast it will lose more than £5bn in retail sales this year, with a third of shop and hospitality workers - more than 5,000 people - facing the threat of redundancy. The Mayor said the financial case for safeguarding the businesses was "overwhelming" with London's economy accounting for a quarter of the UK's total economic output and contributing a net £38.7bn to the Treasury. Pressing for an extension to the business rates holiday, which is due to end in March 2021, he pointed out many large retail, leisure and hospitality businesses were making key decisions for next year in the coming weeks, so certainty was urgently needed.

Staying in the UK, there is to be a delay in the revaluation of business rates in Wales, with a planned “refresh” next year postponed until 2023. The synchronisation with England means “ratepayers in Wales are not placed at a disadvantage compared to those elsewhere” said the Welsh Government. The Welsh Government sets the business rates multiplier (tax rate) and have offered several relief packages for some business ratepayers over the years as it determines national business rates policy. Business rates have been fully devolved to Wales since April 2015. Back in May this year, the Welsh Minister for Finance was asked about the new rating list date when it was announced that the UK Government were postponing the revaluation in England to 2023. At the time the Minister said, “We welcomed the bringing forward of the planned revaluation to 2021 because we think that’s important because it does give businesses the most accurate reflection of a rateable value of their property. So it ensures that businesses are paying the correct amount for the property in which they are operating from” adding the UK Government delay was “…disappointing but completely understandable given the legislative challenges that UK Government is facing at the moment. Clearly, we will just have to work to a refreshed timetable in due course.” The Welsh Government have now confirmed the new ‘refreshed timetable’ for the next non-domestic rates revaluation in Wales will take effect in 2023 and will be based on property values as at 1 April 2021. The Minister for Finance said, “Postponing the revaluation to 2023 will mean that the rateable values on which rates bills are based will better reflect the impact of COVID-19.”

And finally, this newsletter started with a “controversial” issue and is now going to end with a “rude” one. It is reported that, contrary to popular opinion, “saucy” street names could add value to homes, particularly in the UK. It turns out that names such as “Bell End”, “Butt Street” and “Bottom Road” can add thousands of pounds to the value of a house. The most popular rude word appearing in street names across the UK is “Butt”. It apparently makes an appearance in 151 different road names and is said to increase property values by £30,000 on average. Perhaps even more surprising is that properties in “Jackass Lane” in London have an average selling value of £870,000 which is significantly higher than similar properties in the locality not enjoying such an “unusual” street name.

However, it seems some “suggestive” street signs, mostly associated with slang terms for male and female body parts, were definitely off-putting and could lower property values; in the interests of decency, I will not include the worst examples of them here. The interesting issue, at least to me, is whether such factors are - or should be - taken into account in property tax valuations!

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