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International Property Tax Institute

PRESIDENT'S MESSAGE

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I was pleased to be invited to attend the launch of the World Bank's new publication called the "Property Tax Diagnostic Manual" last month. I was also pleased to see a veritable cornucopia of the glitterati of well-known property tax experts at the event. Even more pleasing was the fact that several Members of IPTI's Board of Advisors not only attended the event, but also contributed to the publication. IPTI Board Members Dr Claudia M. De Cesare and Dr Riël Franzsen reviewed and contributed to the development of the manual, and IPTI Board Member Dr Roy Kelly was the primary author of the document.

The manual runs to over 200 pages and covers a wide range of material. I will try to provide a flavour of what the manual contains with a few selected extracts from its introductory sections.

"This Property Tax Diagnostic Manual … provides guidance on how to analyze and assess immovable property tax systems, diagnose the strengths and weaknesses of such systems, and develop a property tax intervention strategy where needed. Its higher objective is to support increasingly fair and stable tax systems in low- and middle-income countries, with significant potential for sustainable improvements in achieving key revenue, equity, and efficiency objectives.

This Manual focuses specifically on the recurrent, immovable property tax. It does not address other land-based property taxes such as property transfer taxes, capital gains taxes, and one-event property revenues (land sales, leases) or personal taxes on movable property such as boats, airplanes, and motor vehicles. Although these other property taxes are not directly addressed, successful reforms for the recurrent, immovable property tax must take into account the interactions that exist between the immovable property tax and these other forms of property taxation.

The Manual is primarily designed to assist practitioners from governments, development partners, and civil society practitioners to identify, analyze, and develop potential property tax reforms. The Manual lays out an analytical approach that can help identify property tax performance potential, challenges and opportunities, evaluate remedial property tax policy and administrative reform measures, and design a strategic action plan to implement those recommended interventions. A conceptual framework for the property tax, its policy and administration components, and reform strategy options are provided along with numerous examples of international experience.

The Property Tax Diagnostic Framework [PTDF] presents a four-step diagnostic process to assist in assessing and designing appropriate strategic action plans for improving property tax performance. The diagnostic process comprises four steps:

Step 1: High-Level Situational Analysis (HLSA) for reviewing the property tax revenue performance, the underlying policy and administration factors, and the institutional environment. Then, based on the findings from this situational analysis:

Step 2: Strategic Assessment (SA) is made to identify the key challenges and priority areas for broad areas of possible remedial action.

Step 3: Detailed Analysis and Action Identification (DAAI) follows the SA if further analysis is deemed necessary and possible. Further analysis can help in better understanding the policy and administration challenges and the institutional environment in order to identify more detailed remedial intervention alternatives.

Step 4: Strategic Implementation Plan (SIP) emerges from the combined analysis of the preceding steps. The SIP prioritizes and sequences reform remedial interventions and identifies the resources and timing needed for implementation. During the development of the SIP, it may be necessary to review the strategic assessment and undertake additional analysis and action identification as appropriate.

Implementing the PTDF explains the implementation of the technical analysis, which focuses on understanding property tax revenue performance, the underlying property tax policy and administration variables, and the institutional environment, which can affect overall property tax revenue yield, equity, and efficiency.

The technical analysis is structured around a property tax revenue equation … that shows that property tax revenue yield is a function of interacting policy and administration variables. The key policy variables relate to the tax base and tax rates while the key administration variables relate to tax base coverage, property valuation, tax liability assessment, and revenue collection. These policy and administration variables, operating within a political-institutional environment, interact to influence property tax revenue yield, equity, and economic and administrative efficiencies.

Following a description of the revenue equation components, the technical analysis explores property tax performance, providing metrics to measure and benchmark the revenue performance across countries, metropolitan areas, and cities over time. This performance analysis is followed by a technical analysis of the underlying policy and administrative factors affecting that performance, including an approach to understand the political-administrative and institutional environment.

Remedial Strategies focuses on identifying possible remedial interventions, prioritizing those with the highest expected returns and tractability, and sequencing those interventions within a strategic, sustainable implementation plan. The accompanying Annexes are split into different elements of Tax Policy (TP) and Tax Administration (TA) and come with indicative Terms of References that can facilitate the procurement of specialized expertise to help implement the Property Tax Diagnostic Framework, as needed. The section on General Reform Considerations summarizes high-level considerations that practitioners should keep in mind while working on property tax reforms.

Given the diversity of reform contexts and the underlying challenges and opportunities within a "taxing jurisdiction" (at the level of national, state, or local government), this Manual is designed as a flexible toolkit that can be applied to the context-specific nature of those requests. It is not designed as a prescriptive document, but rather one that outlines a common set of analytical approaches, commonly-used metrics to benchmark performance, a range of policy and administration options with discussion on international practices and experiences, along with strategic considerations for prioritizing and sequencing an action-oriented implementation plan.

While this Manual provides a general diagnostic process, analytical tools, and implementation road map, it not a substitute for technical experts. It is designed to help practitioners - governments, development partners, and civil society - manage their specialist resources. The creative, adaptive application of these tools and knowledge, combined with effective utilization of specialized technical experts, can enable the development of innovative and effective property tax reforms."

Those short extracts do not do justice to the detailed guidance that the Manual contains, but I hope they provide a helpful overview of what the document covers and its objectives. As someone who travelled extensively in West Africa whilst working as a consultant for the World Bank many years ago, I would have been delighted to have such a helpful "tool" available to support the property tax components of the various projects on which I worked.

I have no hesitation in recommending the Manual as a "must read" for all those involved in providing advice in respect of property tax systems around the world and I thank the IPTI Board Members, working with others, who have produced the document.

Moving on, as I write this newsletter, the world remains in various degrees of lockdown to try and limit the spread of COVID-19. However, there is some light at the end of the tunnel in the form of various vaccines designed to combat the coronavirus which appear to be effective and which, hopefully, will be rolled out soon. Of course, it will be a monumental task to inoculate the entire population of the world against the disease, but I hope that exercise is able to get underway as soon as possible.

Back to IPTI business, we have had a very busy month working on both projects and online events. The projects have been quite challenging, but very interesting, and the (virtual, of course) events have been quite varied and well attended.

I chaired a half-day online conference aimed at the UK market looking at "The Property Market in a COVID World". In addition to considering the impact of the lockdown restrictions on various sectors of the property market, our panel of speakers also considered the likely impact of COVID-19 on the property tax system in the UK, in particular, the serious effects of closing so many businesses. But even businesses that were not legally forced to close suffered loss from so many people working from home, shopping online, unable to travel, social distancing, etc. The long-term impacts of these changes have yet to be seen.

Another virtual event in which IPTI participated last month was the Virtual Symposium organised by the Institute for Municipal Assessors (IMA) which is based in Canada. We have worked with the IMA for many years and our partnership is both productive and enjoyable. Their symposium, spread over two days, included a number of very interesting sessions including three panels, each chaired by IPTI, which covered "COVID-19: Policy and Valuation Challenges", "COVID-19: Hearing and Litigation Challenges" and one that I chaired called the "Canadian Directors of Assessment Service Panel" which, as the title suggests, brought together the heads of a number of valuation organisations from across Canada, each of whom made short initial presentations and then answered questions from the large number of people attending the event.

We also delivered another in our series of IMA-IPTI webinars, this time on the topic of "Conducting Appropriate Sales Investigation". Among other issues, this dealt with the following questions: What sold? Was it an open market transaction? Are there existing leases or management contracts and what effect did they have on the sale price? These and other questions concern the validity of a sale. The webinar also looked at the preparation required before interviews with the buyer and seller and explained how to "fit" the questions to the specific property type. It was a very informative event.

Due to international travel restrictions, IPTI was unable to hold its annual Caribbean conference, in partnership with the RICS, which was due to take place in Trinidad & Tobago. However, in its place, we are holding two virtual events the first of which took place last month and looked at "The Impact of COVID-19 on Caribbean Real Estate: Valuation Challenges". I chaired this event which was very well attended. We had local speakers who talked about the market in many different Caribbean countries and international speakers who provided insight into the global situation.

Predictably, COVIV-19 featured in many of our recent events including one organised by IPTI's Corporate Advisory Committee on the "Impact of Government Imposed Restrictions on Assessed Values: COVID-19". This event was for the benefit of corporate representatives and covered a wide range of issues.

We also delivered another in our series of mass appraisal workshops. This one looked at cost modelling and our three very experienced presenters considered a land model with market derived depreciation (SPSS), land model with residuals (SPSS), model comparison (SPSS), land model with market derived depreciation (R) and land model with residuals (R). It was well received by the participants.

Looking ahead to December, we have a variety of events taking place. The next RICS-IPTI webinar will be on the topic of "Ethics and Avoiding Conflict of Interest in the Valuation Process" (2 December). Although this event is aimed at the Caribbean audience, it will be of wider interest as the ethical principles involved are global in their nature.

We have another event for IPTI's corporate representatives on "The Role of Mediation in Valuation Disputes" (10 December) and we have another IMA-IPTI webinar on "Separating Business Enterprise Value from Real Estate Value" (15 December). Among other issues, this will look at methods of identifying and separating the value of personal property and intangible business enterprise value from the real property value.

As usual, details of all our forthcoming events are 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 the USA, there was a rather important election taking place on 3 November. But, apart from the election of a new President, there were also some other important property tax issues that were put to the vote at the same time. California had two property tax-related propositions on its November ballot, but only one will become law, Proposition 19. This Proposition does a few things, including that people over 55, or who are severely disabled, who sell and then buy a home at any value in the state can transfer their taxes with them. California's Proposition 13, passed in 1978, stipulates the assessment value of a property is set when the home is purchased. The new law will enable older or disabled homeowners to keep the low tax assessment of a long-time residence, even if the replacement home is of a higher value. However, another part of the Proposition adds restrictions for the transfer of property between parents and children or grandchildren. Currently, homeowners can pass their low property assessment on to their children or grandchildren when leaving them the house. The new law will require the beneficiary to move into the residence within a year. Before the change, they were not required to move in under any timeline. Perhaps more important than the outcome of Proposition 19 was the vote on Proposition 13. Proposition 15 sought to introduce a "split roll" in California by keeping the Proposition 13 limits in place for residential properties but removing them for non-residential properties. By a narrow margin, Proposition 15 did not succeed so California retains its unique "Prop. 13" which, depending on your perspective, is either a welcome protection against rising property taxes or a measure which results in considerable unfairness and inconsistency between property taxpayers across the state.

Colorado also saw property tax changes as a result of the election on 3 November. Voters repealed the "Gallagher Amendment" which was adopted in 1982. Part of the state's constitution, the Gallagher Amendment stipulates that "45% of the total amount of state property tax collected must come from residential property, and 55% of the property tax collected must come from commercial property," according to the state of Colorado. The residential assessment rate was initially set at 21%, but there are significantly more residential properties in 2020 than there were in 1982. To keep the 45/55 ratio, the residential assessment rate had been readjusted every two years and has been reduced to the current rate of 7.15%, according to the Colorado General Assembly. The repeal means the state is no longer required to maintain that ratio. The residential assessment rate was set to be reduced again in 2021. Instead, the current assessment rate of 7.15% - and 29% for non-residential property - will be frozen, according to the state. Because of the Colorado Taxpayer's Bill of Rights, also known as TABOR, the legislature could not increase assessment rates without a vote. Now they have had that vote.

Canada, along with some other countries, has been considering the introduction of a wealth tax. The federal government is said to be considering a wealth tax to reduce inequality and to pay for the relief measures that were implemented in response to the COVID-19 pandemic. Those measures have led to a record deficit and a ballooning national debt. The concept of a wealth tax has been gaining traction. The federal government announced in September that it would seek ways to place a tax on extreme wealth inequality. In July, the Parliamentary Budget Office issued a report that examined the impact of a 1-per-cent tax on family net wealth above $20 million. That would be a $200,000 tax hit on top of regular income tax. But the proposal does not define family, nor does it distinguish between liquid investment assets, such as securities, from those that are more illiquid, like homes. Experts say that adding a wealth tax would cause confusion between personal income, which is currently taxed, with personal wealth, which is not. Someone can have a great deal of income, spend it, and not have much wealth while someone else can be wealthy, with property such as farmland or gold coins or even zero dividend stocks that produce no income. For example, farmers often have land that has substantial value but produces little income. Taxes on wealth in other countries have not generally been successful. For example, from 1982 to 1986, and then from 1988 to 2017, France imposed an annual tax of as much as 1.8 per cent on fortunes of more than 13 million euros. In 2012, former president of France, François Hollande, added a 75-per-cent supertax on annual incomes above 1 million euros. France's wealth tax caused actor Gerard Depardieu to flee the country and cancel his citizenship. He chose to make Russia his home. He swapped democracy for autocracy as a tax protest. Unproductivity of the tax led France to abandon wealth taxation in 2017.

It is not often that we hear much about Finland when it comes to property tax, so it was interesting to find out a bit more about it from recent articles. In Helsinki, the city government decided that property tax rates will not rise next year. Property tax is paid by all Helsinki residents living on the property plot. Roughly calculated, the property tax is about 10 percent of the cost of living in a detached house and four percent in an apartment building. The state sets the upper and lower limits of the property tax, but the municipalities are free to decide at what level the tax is set between them. On average, real estate tax in Finland accounts for 8 percent of municipal income. The government states that the aim of property tax reform is to take better account of the fair values of land and buildings, i.e. market values, which in the current system lag behind the general development of costs and prices. The reform is expected to be introduced in 2023 taxation and will be reflected in Helsinki's municipal policy in the coming years, so that the upper and lower limits of the property tax set by the state may change. For now, the city council approved the following real estate tax rates: general real estate tax rate: 0.93%; real estate tax rate on permanent dwelling: 0.41%; real estate tax rate on other dwellings: 0.93%; real estate tax rate on unbuilt sites: 3.93%; and real estate tax rate on power plant buildings: 3.10%.

And finally, a story involving property tax and people power. A taxpayer in the USA is refusing to pay his property taxes until the local council repair holes in the road outside his house. He has started a "property tax boycott" with the hope of compelling the city to help repave the street the condition of which he describes as being atrocious and dangerous. After advocating for the road to be repaved, he consulted a lawyer about not paying his taxes, who he said told him, "Don't even consider doing it; you could lose your house." But, since he stopped paying taxes, he said, he's received more attention from the city about his issue, and he is not worried about losing his home. The council said, "We don't make paving decisions based on people's payment or non-payment of property taxes". The council added that interest charges are growing on the tax bill. It does not sound as though this story will end well for the taxpayer, but it would be nice to think that there is an effective link between property taxes paid and services received.

Anyway, good luck to him and a very happy COVID-free forthcoming festive holiday period to you all.

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