PRESIDENT'S MESSAGE

August 2024

I start this month's newsletter with a very topical issue by reference to an article titled "The impact of rising property taxes on communities". Although it is focussed on the USA, the issues are common to many property tax systems around the world.

The author states: "The rise of property taxes has become a topic of discussion across many local communities in the U.S. According to ATTOM's 2023 Property Tax Analysis, there has been a significant 6.9% rise in nationwide single-family taxes, with particularly high rates observed in the Northeast and Midwest regions.

This trend, driven by several economic factors and local governance decisions, has a major effect on the social and economic growth of neighborhoods across the country. As property values increase and local governments struggle with funding needs, the burden on homeowners, businesses and community stability intensifies. These statistics highlight the pressing impact of rising property taxes on households and businesses, reinforcing the need for effective strategies to mitigate these challenges and maintain community well-being.

The increase of property taxes stems from several factors. As property values rise due to market and economic growth, local governments often adjust tax rates to capture a larger share of this increased value. This is compounded by the need for municipalities to fund essential services such as education, infrastructure maintenance and public safety, all of which rely heavily on property tax revenues.

Local governments are facing increasing pressure to meet growing demands for services amid rising costs and expectations. This dynamic often leads to higher property taxes to bridge budget gaps and financing community projects.

In a recent study, it was found that property taxes accounted for an average of 72% of total local tax revenues across the United States. This statistic emphasizes the significant reliance of local governments on property taxes as a primary source of funding for such public

services. According to data from the Tax Foundation, property taxes accounted for an average of 31.3% of total state and local tax revenues in 2021.

The effects of increasing property taxes extend far beyond individual households. Small businesses face a significant impact, often operating on narrow profit margins. Increased property taxes contribute to higher operating costs, which can undermine sustainability. More specifically, they drive real estate costs for office and retail businesses whether they rent or own the property. Higher property taxes can deter potential investors and entrepreneurs from establishing roots in a community.

Areas with excessively high tax rates may find themselves at a disadvantage compared to regions with more favorable tax environments, leading to less jobs and economic growth. This not only impacts local development but also contributes to broader economic inequalities across regions.

While rising property values typically correlate with increased taxes, excessive tax burdens can impact property values over time. Prospective buyers are often deterred by the idea of high ongoing taxes, decreasing demand and potentially stagnating the real estate market. Specifically, the disconnect between current property values and previously assessed market values can lead to situations where property taxes remain high even as market conditions change, placing a burden on property owners without a corresponding increase in property value. This effect highlights the balance local governments must maintain between generating revenue and maintaining property market stability.

Effectively managing property tax increases requires innovative approaches and collaborative efforts between stakeholders. A focus on enhancing government operations and tax collection processes is important and often overlooked. This includes modernizing e-government services, reducing bureaucratic inefficiencies and leveraging automation as well as using vendor services funded solely through service fees. These strategies not only streamline administrative processes but also optimize resource allocation and improve revenue collection, by alleviating pressure on taxpayers.

Traditional methods of property tax assessment and collection often involve manual data entry, paper-based records and labor-intensive procedures. These processes are not only time-consuming but also prone to errors and inefficiencies.

Automation can revolutionize these operations by digitizing records, automating data entry and integrating various systems. For example, automated property assessment tools can use algorithms and machine learning to analyze property data, ensuring more accurate and consistent assessments. This reduces the likelihood of errors and appeals, saving both time and resources.

Moreover, automation can enhance the efficiency of tax collection processes. Online payment reminders and automated billing can significantly reduce the administrative burden on government staff while providing a more convenient and user-friendly experience for taxpayers. By reducing administrative overhead, local governments can allocate more resources to other critical areas, potentially lowering the overall tax burden.

However, even online payment systems are not all created equal, therefore governments must leverage platforms that drive the most efficiency working behind the scenes in collections between the payer/bank, the processor and the property tax collector.

The issue of rising property taxes represents a multifaceted challenge that necessitates thoughtful analysis and strategic intervention. As communities navigate the complexities of economic growth, fiscal responsibility and social equity, stakeholders must collaborate to develop sustainable solutions that prioritize long-term prosperity and community well-being. By leveraging technological advancements, promoting fiscal transparency and fostering a dialogue between government entities and residents, communities can forge a path toward equitable and resilient fiscal policies.

In the face of escalating property taxes, proactive governance and community engagement remain pivotal in shaping a future where economic stability and social cohesion thrive hand in hand. Embracing innovation and efficiency in public administration can pave the way towards sustainable fiscal policies that benefit all members of the community."

IPTI comment: an interesting article providing food for thought on how to improve the efficiency and effectiveness of property tax systems.

Moving on to IPTI activities, we are currently working on a series of varied and interesting projects with a number of different clients. One of these projects is considering the use of "equity clauses" in property tax legislation. The intention behind the use of such legislative provisions is to deal with the situation that can arise where an individual property tax assessment is in line with the subject property's market value at the relevant valuation date, but may be out of line with the assessed values of other similar properties in the locality concerned. The "accuracy versus equity" issue can be challenging for assessors and taxpayers - and appellate bodies - particularly in determining the relevant geographical area to be considered and what properties within that area are truly comparable.

With regard to IPTI events, we have a great line up of both in-person and online events coming up over the next few months. We start in September with another in our series of webinars dealing with mass appraisal concepts. This one will be looking at valuation models with a focus on how multiple regression analysis is used in mass appraisal, highlighting the model specification and calibration process. It will cover defining a model, an overview of multiple

regression analysis, data transformations, various types of model calibration and key regression statistics, and an overview of additive, multiplicative and non-linear models.

In October we have our Annual Caribbean Valuation and Construction Conference delivered jointly by the Royal Institution of Chartered Surveyors (RICS) and IPTI. This in-person event is being held in the beautiful surroundings of Montego Bay, Jamaica and has the themes of "Learning from the Past, Looking into the Future" along with "Sustainability & Climate Change". We have a wide range of interesting topics and experienced speakers lined up.

Later in October we are facilitating the in-person Conference of Valuation Agencies (CoVA 2024). The theme of this year's conference, to be held in Dublin, Ireland, is "Valuation Agencies of the Future" and it will bring together experts from all over the world to discuss a variety of topics that will be of interest not only to those in valuation agencies but also to those who use their valuation services.

Details of all these events, along with additional online webinars being held over the Autumn period, can be found on our website: www.ipti.org

I should add that, in early December, we are partnering with the International Association of Assessing Officers to deliver an International Research Symposium in Amsterdam, The Netherlands. More information about this in-person event will be available shortly.

Now it's time for a quick look at what is making headlines concerning property taxes in selected jurisdictions and countries around the world. For more information, and links to the original news articles, please refer to IPTI Xtracts which can be found on our website: https://www.ipti.org/ipti-xtracts

In relation to wealth taxes (which include property taxes), a French economist recently published a G20-commissioned report outlining how a 2pc levy on the world's approximately 3,000 billionaires could raise between $200bn and $250bn per year to combat global inequality and tackle the climate crisis. It stated that twelve countries in Europe previously levied a wealth tax on their richest inhabitants, but most were repealed in the 1990s and 2000s due to growing fears that, in a globalised world, the wealthy would simply take their riches elsewhere. France was the last to scrap its wealth tax in 2017, after losing an estimated 60,000 millionaires between 2000 and 2016. However, wealth taxes do remain in a handful of countries and the levies have been growing firmer. Last year, Norway increased its higher rate for those worth between Nkr1.7m and Nkr20m from 0.95pc to 1pc, a move blamed for driving some of its super-rich to abandon the country. Meanwhile, Spain last year decided to impose a new "solidarity tax" at a national level, starting at 1.7pc on wealth over €3m, then to 2.1pc at €5m and 3.5pc at €10m. In 2020, Argentina introduced a one-off levy on those with assets worth more than 200m pesos (£170,000) to help fix a fiscal hole left by Covid.

Also in South America, Colombian individuals with a net worth over approximately £515,000 pay 0.5pc tax, while those over a higher threshold face a 1.5pc levy on assets. Separately, a green think tank warned earlier this year that the UK is "a tax haven" for luxury SUVs due to a soft approach on taxation compared with other European countries. The French taxation on high-emission vehicles is huge said one commentator and urged Britain to go down a similar route. He said: "The Government is missing out on an equitable and easily actionable source of revenue by not targeting wealthy buyers of oversized, over-polluting SUVs". Also in France, Parisians voted earlier this year to significantly increase parking charges for out-of-town SUV drivers to up to €18 an hour. While not emission or size-based, Argentina has had a long history of hefty taxes on what it deems "luxury" cars. It previously levied a 50pc tax on cars worth more than approximately $30,000. Also in South America, Chile brought in an annual 2pc tax on certain luxury goods held in the country in 2022. Owners of yachts, helicopters and other manned aircraft with a market value of more than the equivalent of 8.5m Chilean pesos now face an annual levy. IPTI comment: lots of interesting ideas, and more examples below.

In the UK, owners of second homes are set to be charged double council tax (local property tax for residential properties) next year. There has been a multi-pronged approach with the government having removed tax relief from those who run short-term holiday lets and new policies forcing owners to gain planning permission if a property is let out for more than 90 days a year. Sri Lanka, however, is taking a different approach, with the Asian country set to introduce a new "imputed rental income tax" for second homeowners from next year. The tax will be based on the estimated income a homeowner could earn if they rented out their second property, and taxes them on that potential income. It will be implemented from the second quarter of 2025. The country's Ministry of Finance said that the "focus of this tax is on high wealth individuals, and not on average income earners". It said there will be a "suitable tax-free threshold to ensure that the tax is targeted on very high value property or multiple properties that are owned by wealthy members of society".

In the USA, property values in Los Angeles County rose by $97 billion, representing an increase of 4.85% compared to last year, and breaking the $2 trillion ceiling in net total value for the first time, it was announced recently. Data from the 2024 Assessment Roll shows growth to a record of $2.094 trillion in total net value that will put more than $20 billion property tax dollars toward public services, such as public education, first responders and healthcare workers, and other county programs, it was reported. The 2024 Assessment Roll evaluates 2,395,924 taxable real property parcels, 163,565 business property assessments, 32,685 boats, and 3,033 aircraft, according to the assessor's office. Additionally, the Assessment Roll provides insight into the state of the real estate market, as well as the local economy and works as a valuable tool for local governments as they prepare their annual budgets in anticipation of property tax revenues.

Sales volume in Los Angeles County reportedly declined significantly compared to 2022; however, home prices remained strong through 2023, with the median single-family home value reaching as high as $900,000 in September. Property transfers, or sales, are the largest contributor to the 2024 Assessment Roll, adding more than $53 billion. However, this growth does not mean all property owners will see hikes on their annual property tax bills, as most property owners will only see a 2% adjustment due to the impact of Proposition 13 (tax cap).

In the Philippines, the President recently signed Republic Act No. 12001, or the Real Property Valuation and Assessment Reform Act (RPVARA), into law. The main feature of the law will be the establishment of a single Schedule of Market Values (SMV) or a table of base unit market value for all kinds of real property (except machinery within a Local Government Unit or LGU). This schedule will correct the absence of a national standard of real property valuation and assessment, which led to years of court litigation over lands, right-of-way conflicts, and red tape. The provincial, municipal, and city assessors, among others, will prepare the SMVs for different classes of real property situated within their respective LGUs. All provincial, city, and municipal assessors are mandated by the new law to update their SMVs within two years of the law's effectiveness. LGUs are in turn required to update their SMVs and conduct a general revision every three years thereafter.

Uniform valuation standards will be developed, which will be used by all appraisers and assessors in the LGUs, and other persons, entities, or agencies that conduct valuation in the appraisal or valuation of lands, buildings, machinery, and other real properties for taxation and other purposes. The standards are to be reviewed every three years or as often as may be necessary to ensure that they are globally aligned with the accepted principles and definitions, with due consideration of the prevailing economic conditions.

And finally, having mentioned wealth taxes earlier, it is interesting to note that Danish farmers will soon face an annual tax per cow as part of a crackdown on emissions. From 2030, farmers will have to pay 120 Danish krone (£34) per tonne of CO2, increasing to the equivalent of £85 per tonne in 2035, although a 60pc rebate will be applied. According to the European Union, Denmark is a member state which "stands out as having high farm incomes". On average, there are 207 cows per farm in the Scandinavian country, meaning the annual tax will be a major cost for hard-working farmers. The government hopes the new tax will help it reach its goal of cutting emissions by 70pc this decade. The Danish taxation minister is confident the policy can be a trailblazer. "We will be the first country in the world to introduce a real CO2 tax on agriculture. Other countries will be inspired by this," he said. I am not sure "inspired" is the right word to describe how farmers, or their cows, will react to the new "gas" tax!

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