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International Property Tax Institute

PRESIDENT'S MESSAGE

June 2024

I must start this newsletter by thanking all the organisations I visited during May for their kind invitations and hospitality. I visited Hong Kong, Australia and Singapore and was made very welcome in each jurisdiction.

In Hong Kong, I was invited to make a presentation to staff of the Rating Valuation Department (RVD). The RVD had arranged a meeting with a large number of their staff, part of whom were sitting in one large room and part in another large room where my presentation was being livestreamed. The meeting was in two parts: the first being a presentation from me about various aspects of property tax systems in other countries and the second being a "fireside chat" where I was asked a series of questions in a very informal and relaxed manner. Kevin Siu, the Commissioner of the RVD, also kindly contributed to the meeting with his views on the "International Collaboration Project" which I will say more about later.

I should add that, in the morning, I was taken by RVD colleagues on a cultural tour of parts of Hong Kong (West Kowloon) followed by lunch before my meeting, and on a separate tour of old parts of the city, followed by dinner, after the meeting. It was a very enjoyable day.

I then flew from Hong Kong, via Sydney, to Cairns in Queensland where I had been invited to participate in the 2024 Conference of the Australasian Council of Valuers-General. My presentation also involved contributions from the VG's host, Laura Dietrich (VG Queensland) and Neill Sullivan (VG New Zealand) in respect of their research for the International Collaboration Project. I should add that the VGs kindly invited me to join them for their main dinner on the first night of the conference which was a very enjoyable opportunity to chat with them all in a relaxed and informal setting.

Then on to Singapore where I had been invited to a meeting with the staff of the Property Tax Division (PTD) of the Inland Revenue Authority of Singapore (IRAS).

Two leading members of the PTD had also been involved with the International Collaboration Project – Evelyn Khoo (Assistant Commissioner) and Peck Yan Tang (Tax Director) – and they kindly contributed to the part of my presentation that related to the project. In addition to my presentation, the PTD also provided an update on their recent developments, and we had a really interesting discussion about the use of modern technology by valuation agencies. I also met the Deputy Commissioner, Dennis Lui, who was very supportive of PTD's work with IPTI.

Bearing in mind that I had not been to Australia or South-East Asia since the COVID-19 lockdown, it was great to revisit some of my favourite places and meet some old friends – along with some new ones – during this trip.

Moving on, I recently read a disturbing and controversial article from the USA titled "An Enduring Race Tax". The author states: "Property is generally worth less if it's owned by a Black American. That sobering fact, cemented by 150 years of assessment data, underpins inequality today.

Black Americans' properties have been undervalued by home appraisers and overvalued by tax assessors. That double punch has left Black homeowners more prone to falling behind on their taxes and, ultimately, to dispossession. One such case involved a Black landowner in North Carolina who lost his land in 1920. That loss affected the family line across generations, and his great-great grandson, George Floyd, was murdered by a police officer after a phone call to the authorities in Minneapolis about a counterfeit $20 bill one century later."

The article continues: "A book published this week, "The Black Tax," explains how the case of Floyd's great-great grandfather was not unusual under a system that crystallized soon after Black Americans began acquiring property. Black Americans remain the only racial group with a homeownership rate below 50 percent.

Black Americans owned more than 16 million acres by 1910. On the surface, that looks like a success. What lies beneath that? It was a remarkable achievement in the face of enormous odds. By the turn of the 20th century, though, a clear pattern of over-taxation of Black-owned property was apparent across the South. More deviously, local tax authorities were quick to auction off Black-owned land for unpaid taxes, especially when the land in question had become valuable.

While owning land afforded Black people living in the Jim Crow South a degree of independence that Black tenant farmers and sharecroppers lacked, the responsibilities that came with owning land - such as paying taxes - also carried liabilities. The abuse of local taxing powers worked to ensure that whatever land Black people managed to acquire would remain vulnerable to dispossession." The author of the book, Andrew Kahrl, a history professor at the University of Virginia, was asked to explain how the assessment process was abused.

He said: "local tax assessors enjoyed - and often still enjoy - a remarkable amount of discretion over the valuation of local property for taxes. They were, in a sense, accountable to the voters who put them in office, which, because of disfranchisement, meant that they were unaccountable to Black property owners and could overtax them with virtual impunity.

By grossly under-assessing the value of large plantations and estates as well as smaller white landholdings, local tax authorities purposely allowed the wealthiest landowners to pay minimal taxes and starved local governments of revenue, which also shifted local tax burdens decisively onto disenfranchised Black citizens.

Tax sales were a powerful and underrecognized instrument of land dispossession, and one that contributed significantly to the decline of Black land ownership, from 16 million acres in 1910 to less than 1.6 million acres by 2000.

While the particular causes of Black land loss varied, it tended to fit a pattern. It was when Black people owned land that others wanted, or when the presence of an individual or group of Black landowners was seen as a threat to the prevailing social and economic order that Black-owned land was most vulnerable.

The people who bid on tax delinquent properties at county tax auctions were not the hooded nightriders or white mobs that we often associate with Black land dispossession in this era. They were often lawyers and land speculators who were seeking to take advantage of others' misfortunes, financial hardships and vulnerabilities for gain.

Black newspapers reported on the gross neglect of Black schools and neighborhoods and couched their demands for equal services in their rights as taxpayers. Individuals filed appeals and sometimes received reductions. But they had vanishingly few legal options outside of state and local courts to challenge systemic discriminatory practices.

Across the rural South, the author said he found examples of Black victims of deception successfully suing to reclaim their land from a tax foreclosure action, appealing to courts as aggrieved property owners and taxpayers - a tactic more likely to bear fruit than appealing as a victim of racial discrimination.

Especially after World War II, Northern cities began experiencing a draining of their tax bases as middle-class white people moved to the suburbs. So, cities reduced property taxes while enhancing services for the people and businesses they hoped to attract and retain. The favorable tax assessments and better schools and public services that white people enjoyed came at the expense of Black neighborhoods. By the late 1960s, assessments on properties in urban Black neighborhoods were higher relative to property values than assessments in white neighborhoods in virtually every city where tax inequities were studied. But the conditions of public schools, goods and services in these neighborhoods were worse.

By the most conservative estimates, racialized patterns of over-assessment forced every Black person in America to pay an annual extra $100 (in 2024 dollars) for the past 150 years. That adds up to nearly $300 billion. But even that amount fails to adequately capture the damage the Black tax inflicted on generations of African Americans.

The tax advantages that white homeowners living in predominantly white cities and school districts enjoyed helped middle-class white families build wealth through homeownership. At the same time, the value of Black-owned homes and property in Black neighborhoods was driven down, ensuring that homeownership would never become the kind of vehicle for upward mobility that it has been for generations of white Americans.

Every home and acre of land Black people lost at tax sales - and every exorbitant payment they were forced to make to save their homes from tax foreclosure - not only drained Black people of their earnings and assets, it quietly but powerfully contributed to the upward redistribution of wealth in America.

To give one example from the book, in 1961 Evelina Jenkins, a Black woman living in South Carolina, lost 66 acres of prime coastal real estate that she owned after a white man she had entrusted deliberately failed to deliver her $26 tax bill to the county treasurer and then promptly snatched her land at the county tax sale. Today, houses on Horse Island in South Carolina sell for upward of $2.5 million. Jenkins died penniless."

IPTI comment: the picture painted by the article and book on which it is based, if correct, is cause for concern and it is to be hoped that the issues raised can be addressed without delay.

Moving on to IPTI activities, I have already mentioned the International Collaboration Project that IPTI is facilitating. To provide a bit of historical context for this project, there used to be a "Commonwealth Heads of Valuation Agencies" (CHOVA) held every two years. This conference brought together the leaders of various valuation agencies from around the world to discuss issues of mutual interest and concern. Unfortunately, during the COVID-19 pandemic, these conferences did not take place. Following the lifting of restrictions, it was decided to hold a new conference, but to widen it out to a larger audience than CHOVA.

The new event was called the "Conference of Valuation Agencies" (CoVA) and started as an online event organised by IPTI in 2021. There was clearly a demand for an in-person conference, so IPTI facilitated the first such event in Oxford, UK, in 2022. The conference brought together representatives of valuation agencies from around the globe who shared a wide range of their knowledge and experience with the audience.

However, rather than just having a conference every two years, it was agreed that, between CoVA events, work should be done to research a particular topic that was likely to be of interest to a wide range of valuation agencies. Leaders from the Valuation Office Agency (VOA, UK), the Municipal Property Assessment Corporation (MPAC, Ontario) and the Property Valuation Services Corporation (PVSC, Nova Scotia) worked with IPTI to consider how best to take this forward. The topic that was agreed to be the first one to be researched was "Futureproofing the Valuation Profession". IPTI facilitated this research which was carried out by six focus groups drawn from staff volunteered by the VOA, MPAC and PVSC, along with colleagues from various other valuation agencies around the globe.

The present position is that IPTI has now received the initial reports from all six of the focus groups who have been looking at, inter alia, attracting, recruiting, developing and retaining staff. IPTI is in the process of reviewing the focus group reports and will prepare a draft report with the key findings and recommendations. The outcome of the research will also form a significant part of the presentations and discussions at the CoVA 2024 event which will be held in Dublin on 29-30 October 2024. Details of this conference, along with all our forthcoming events, 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. 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

First to Sierra Leone where I have to declare an interest as, many years ago, I did some work in the country for the World Bank advising on how the property tax system could be improved. I am pleased to say recent news articles confirm that the country is now reforming its land tax to raise more money and be more equitable. Outdated taxation laws are being rewritten, and the government hopes this will raise more money to spend on vital services. For years, Freetown's property tax system was outdated and unfair. The tax was based solely on land area, meaning a small shack with a garden could be taxed the same as a luxurious multi-story mansion occupying a similar-sized plot. This placed a heavy burden on low-income residents and did little to generate revenue for critical services. The new property taxes are based on the value of the land, not just its size. This means those with more valuable properties pay a larger amount. By basing the tax on property value and implementing a transparent system, the government will, it is claimed, achieve a fairer tax structure. The increased revenue can then be directed towards improving essential services for citizens. I hope it succeeds.

Moving on to France, residents who own property (in France or elsewhere in the world) valued over a set threshold must pay an annual extra tax, the *impôt sur la fortune immobilière* (IFI), or real estate wealth tax.

This tax is assessed along with income tax for residents in France. It is mandatory if the net worth of an owner's property/properties is above €1.3 million after a 30% reduction for the value of the household's main home. It was introduced in 2018 to replace the now defunct *impôt de solidarité sur la fortune* (ISF), or wealth tax, which was taxed on all global wealth including cars, property and jewellery.

The IFI is levied annually, and since both the tax thresholds and property values are subject to changes, homeowners need to pay close attention to these values if they are eligible to pay, or on the threshold of paying, this tax. Residents with property worth over €1.3m on January 1, 2024, must declare the value of their property in their tax space on *impots.gouv.fr* before the income tax deadline in their department.

This value can be an estimate informed by the tax authorities' online tool, sales information, or an evaluation by an estate agent or a chartered property surveyor. In the case of a disputed evaluation, owners will be required to justify the value they have provided. The IFI is a progressive tax with an allowance for the first €800,000, applied in 2024 as follows: €0 - €800,000: 0%; €800,000 - €1,300,000: 0.5%; €1,300,000 - €2,570,000: 0.7%; €2,570,000 - €5,000,000: 1%; €5,000,000 - €10,000,000: 1.25%; above €10,000,000: 1.5%.

The thresholds apply to all property and real estate rights held directly and indirectly by members of a household on January 1, 2024. Apart from land and buildings, IFI can also apply to shares related to investment in real estate, or, if of a mixed nature, in proportion to the investment in real estate. Shares in companies whose main activity is holding real estate are also concerned.

Properties used for the owner's own work are not included. Furnished properties rented out 'professionally' are also exempt. Owners who think the assets minus property-related liabilities of their household exceed the threshold are responsible to make a declaration. Relevant liabilities include mortgage debt, property taxes and other outstanding debts related to taxable properties.

And finally, we all know that making a property tax appeal can be a double-edged sword, but two recent stories from the UK show the potential risks and rewards involved. On the "risk" side, the outcome of a property tax appeal resulted in not only an increase in the property tax payable by the appellant, but also all his neighbours! I imagine he was very popular in the locality! However, on the "reward" side, a group of retired taxpayers who persisted with their appeals for 16 years (!) were, ultimately, successful and each obtained a refund of £9,000. These stories seem to show the truth of the old adage: "some you win, some you lose".

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