PRESIDENT'S MESSAGE

April 2024

I am sending this newsletter out a bit earlier than the usual end of the month as I wanted you to receive it before the Easter weekend. If you are taking some additional time off over the long weekend, I hope you have a great time with family and friends.

The title of an article caught my eye recently "There's Nothing Conservative about Repealing the Property Tax". The author, looking at the property tax system in the USA, said: "Property taxes generate 72 percent of local tax revenue. If governments can afford to cut taxes that deeply, surely there are more pro-growth places to cut. A tax revolt is brewing, with homeowners and farmers in a half-dozen states and counting swinging behind sweeping proposals to eliminate local property taxes. A popular movement to repeal a major tax may sound like a conservative's dream, but for free-market conservatives, this particular dream could easily turn out to be a nightmare.

Taxpayers tend to hate property taxes; economists and public-finance scholars tend to love them. This sort of thing is probably why economists don't get invited to dinner very often! But here, we must grudgingly admit that they have a point. It is axiomatic in taxation that whatever you tax, you get less of. If you tax income, you'll get less of the things that produce income, namely labor and investment. If you tax capital assets, you'll get fewer of them. If you tax "sin," you'll get - well, perhaps not less sin, but possibly different sins!

A good tax system should be economically efficient, meaning it raises the necessary revenue with the least economic impact. Policymakers should avoid introducing unnecessary economic distortions, where the tax code picks winners and losers or induces individuals and businesses to make choices they would not have otherwise made, absent the tax. This is where the property tax shines, at least in comparison with most other ways to raise revenue. Because land and buildings are immobile assets, taxing real property has far less of an effect on economic decision-making than most alternative forms of taxation.

Dollar-for-dollar, property taxes do considerably less harm to economic growth than most other taxes, especially income taxes and taxes on business investment. They are also closer than most major taxes to the "benefit test," rooted in the idea that, where possible, taxes ought to correspond to services received. The gas tax is a good example of this, almost approximating a user fee if well-designed, with drivers paying in rough proportion to the cost of maintaining the roads they use. The property tax may not seem similar at first glance, but in fact, the value of one's real property is a reasonably good proxy for the value of local services received, like roads, law enforcement, emergency services, and schools.

A good school district, for instance, increases your property's value regardless of whether you have kids in that school. And if you privately contracted for insurance or security services, you'd pay more to secure a more valuable property. Local governments, unlike federal or state governments, do relatively little income redistribution. (A few major cities are exceptions. They tend not to be located in the states where property-tax abolition has a shot.) Most of their spending goes to public services that are proportionally more valuable based on the value of one's property, and which, delivered well, increase a property's value.

Is this correlation perfect? Of course not. But it's way better than we find in most taxes. The services you receive from the government increase in value when you have more valuable property. Can you say the same about the services you receive as your income levels (and thus income-tax payments) rise? Having praised the property tax, let's acknowledge and address the aspects people tend to dislike.

First, that tax bill hits hard. Property taxes are unusually transparent: most people know what they pay, and they don't like it. You don't have to like it; in fact, you shouldn't. An engaged citizenry keeps the pressure on government officials to justify why they need as much revenue as they collect, and how they spend it. Transparency, therefore, is a good thing. You probably know your property tax bill, and if you think it's too high, you might attend a public meeting about it. Now, quick, tell me: how much did you pay in sales tax last year? How much did taxes on business reduce your salary or increase the prices you paid? Fiscal conservatives should want more taxes to be as transparent as the property tax, rather than focusing on getting rid of the tax that's the most transparent.

Second, some people have an instinctive aversion to the idea that you can be taxed on something you own. For some, it's hard to square ownership with the idea of a continuing tax obligation. This impulse isn't unreasonable, but it's a problem that bedevils almost every tax. You pay sales tax when you spend money you already possess, and on which you've already paid income tax. You pay income tax on the fruits of your own labor. You don't have to like taxes - who does? - but short of deciding that taxes are theft and championing a stateless society, training fire on the property tax and forcing governments to raise more money from less pro-growth sources is a bit of an own goal for those who want to unleash the power of markets.

Third, homeowners are understandably alarmed by how sharply their property tax bills have risen in recent years. Their anger is legitimate, and they're right to seek solutions that rein in such increases, but replacing the property tax with something else - almost assuredly something worse - is misguided.

Assessed values have soared since the start of the pandemic, so if tax rates remain the same, homeowners pay substantially more than they used to on the same property, even though they're probably not getting more or better government out of the deal. Fortunately, many jurisdictions have rolled back tax rates, but not always enough, and some localities have been happy to pocket the windfall. State lawmakers can provide meaningful relief by implementing levy limits, which restrict the amount that local collections can grow year over year (exempting new construction) by mandating tax rate rollbacks to keep tax burdens in check when valuations spike. Protecting homeowners against unlegislated and unjustified tax increases is prudent; shifting the tax burden to a more harmful tax is not.

Besides, for most homeowners, inflation is the real villain. National statistics can obscure local variations that matter a great deal to the property owner whose county commissioners are gleefully taking the windfall without budging tax rates one iota (and that's what levy limits are for), but nationally, property tax collections were 5.5 percent lower in real terms in 2022 than they were in 2019, despite housing values soaring 33.6 percent and additional properties being added to the mix. People are paying a lot more - the median tax bill skyrocketed from $2,546 to $2,912 - but, nationally, the entire increase (and then some) is inflation. That's an indictment of federal fiscal policy far more than it is of local property taxes.

Should free-market conservatives love the property tax? Not really. A certain amount of tax skepticism is healthy. It encourages taxpayers to care about competitive tax rates and keep tabs on how their tax dollars are being spent. But should they hate it to the point of seeking its abolition, as direct-democracy efforts in Nebraska, North Dakota, Florida, and elsewhere would do? Given the alternatives, property tax abolition is a bad bargain, and it's often propped up by unrealistic promises.

In Nebraska, for instance, proponents of a measure called the EPIC Option argue that all existing income, sales, and property taxes could be replaced with one broad-based consumption tax of 7.5 percent. The actual revenue-neutral rate would be closer to 22 percent. Such wishful thinking about the ease of replacing the property tax appears to be a hallmark of these citizen efforts. Property taxes generate 72 percent of local tax revenue. If governments can afford to cut taxes that deeply, surely there are more pro-growth places to cut. And if, as is usually the case, the solution is to increase some other (typically state-level) tax, conservatives should be the ones asking the tough questions. Questions such as: will this tax do more economic damage than the tax it replaces? And what sort of incentives are we creating if state government becomes the primary financer of local government spending?

Fiscal conservatism is, let's face it, a bit boring by design. It's the embodiment of the stodgy accountant crunching the numbers and asking whether governments really need to buy the latest shiny toy. Because, if you're conservative, you want government to be boring, to leave room for private enterprise to be dynamic. And here too, fiscal conservatism calls for a dull steadiness: sticking with what works, not chasing after shiny objects; preferring reform to revolution; and not letting frustration with property taxes lead to the embrace of something far worse."

IPTI comment: there are some very interesting points in the foregoing article which identifies many of the key considerations that should be taken into account by those advocating for the abolition of property tax.

Moving on to IPTI activities, we have recently delivered another webinar in the series that forms part of our partnership with the Institute of Municipal Assessors (IMA). The latest webinar dealt with the topic of "The Assessment Valuation of Multi-Residential Properties". Our two experts examined the current trends and factors affecting multi-residential properties. They provided participants with a better understanding of the fundamentals and principles in valuing multi-residential properties. They also discussed the effects of rent control on valuation for property tax purposes. They provided insights into the various valuation techniques, looking at the direct capitalization and the gross rent multiplier valuation approaches as well as the determination of rents and expense allowances.

We have now embarked upon the first in the series of six webinars dealing with the issue of "Mass Appraisal Valuation". This series of online events is designed to enhance the attendee's knowledge of mass appraisal concepts along with practical skills required in relation to assessment valuation for property taxation purposes.

Looking a little further ahead, I should draw your attention to the online 2024 Mass Appraisal Valuation Symposium (MAVS) which we will be delivering jointly with the International Association of Assessing Officers (IAAO) on 26-27 June 2024. Another future date for your diary is our annual Caribbean conference, run in partnership with the Royal Institution of Chartered Surveyors (RICS), which will be held in Montego Bay, Jamaica on 2-3 October 2024.

Looking a little further ahead, IPTI will be facilitating the next Conference of Valuation Agencies (CoVA 2024) to be held in Dublin on 29-30 October 2024. Details of 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

Starting in the USA, the property tax system in New York City (NYC) came in for criticism in a recent Court of Appeal decision. The state court held that NYC's property tax system leads to disproportionately high tax bills for minority homeowners. At stake is how to tax the city's $1.3 trillion worth of real estate on 1.1 million parcels. The court did not rule on the system itself but, rather, found that Tax Equity New York's litigation could proceed in the lower court. A news article commenting on the decision stated that this should be the occasion for the city to act pre-emptively to reform the system. It stated that there's already a good "playbook" for how to proceed: a City University of New York-led Advisory Commission on Property Tax Reform issued a report that urgently needs to be revisited - both for its diagnosis of the system's distortions and the fixes it recommended. Unjust distortions are replete in the system, which the commission described as "opaque, arcane, and inequitable." The key recommendations of the commission - which deliberated for 3½ years - are so sensible, the author states, it's hard to believe they aren't already practiced.

The reintroduced property tax system in Trinidad & Tobago has been the subject of many critical comments and articles in recent months. Responding to these criticisms, the Minister of Finance has proposed reducing the tax rate on residential properties from 3% to 2%. A recent article stated: "Property owners say while they appreciate the Finance Minister's proposal to decrease the property tax by one per cent, the percentage was never a problem. The issue, they said, was with the valuation of their properties and the lack of transparency about the way it was calculated. Property tax is based on a percentage of the Annual Rental Value (ARV) of a property after a deduction of ten per cent for voids. For residential properties, the government has proposed to reduce the tax from three or two per cent and vacant residential land is 3.5 per cent. Commercial property tax is five per cent, industrial with buildings is six per cent, industrial without buildings is three per cent, vacant commercial and industrial is five per cent, agricultural is one per cent and vacant agricultural is two per cent. The government moved to begin collecting only from residential properties in 2024. But exactly how the ARV is calculated is still a mystery and many are complaining of exorbitant amounts for simple homes or widely varying amounts on different notices for the same location." One advocacy group has suggested that the government scrap the property tax and allow cannabis exports instead! The Caribbean Collective for Justice (CCJ) is calling on the T&T government to focus on additional revenue instead of taxes, for example, with the establishment of a Cannabis Licensing Authority, which was stalled since the legislation was approved in the Senate in 2022. In a statement, the CCJ, which began a petition to legalise cannabis which led to the eventual decriminalisation of the plant in 2019, is calling on the government to repeal the "unfair and socially destructive property tax" and legalise cannabis instead to allow small farmers and the Rastafari to cultivate and export cannabis. The CCJ continued, "The cannabis industry is earning millions of US dollars for the Jamaican government and people, with 12 dispensaries operational across the island. What is preventing us from following in their footsteps and adding cannabis to our health and tourism offerings?"

Moving on to Portugal, a recent article explains: "In its approach to taxing real estate, Portugal applies both recurrent taxes on immovable property (*Imposto Municipal sobre Imóveis*, or IMI) as well as a turnover tax on property transfers. While Portugal could implement improvements to its property tax base, recurrent taxes on property are one of the most efficient types of taxes, and Portugal's property tax burden lies at the European average. In contrast, Portugal's turnover tax on real property transfers (*Imposto Municipal sobre as Transmissões Onerosas de Imóveis*, or IMT) places a serious drag on economic growth by making it harder for people to relocate for better jobs and living conditions while constraining investment into the development of housing and buildings. Reform efforts should concentrate on eliminating the transfer tax and replacing it with VAT on new buildings and structures. Any resulting revenue losses from eliminating the transfer tax can be easily offset with less harmful measures."

And finally, for many years at various IPTI events, I have referred to the problems associated with the UK's council tax system. It is way out of date (the values date back to 1991); it is highly regressive; and it is manifestly unfair. In relation to unfairness, I used to draw attention to the fact that The Queen (now The King) pays less council tax in respect of Royal Palaces than I do for my modest family home. This topic was back in the news recently with an article stating "Buckingham Palace, valued at around £1bn, is charged £1,828 by Westminster City Council, less than an average three-bedroom semi-detached house in Blackpool." In the interests of fairness, I should add that, although it is correct that part of Buckingham Palace, the part in which the King and Royal family live, is subject to council tax, the rest of Buckingham Palace is not subject to council tax, but is subject to business rates. A Palace spokesperson confirmed that the rateable value of Buckingham Palace is £1.676 million, with the total amount of business rates payable in the 2023/24 financial year being £891,632. The news media which published the original article stated: "We could have been clearer that Buckingham Palace pays business rates on its non-residential part. But the fact that the residential part of a building in the heart of London, with vast gardens and all its other amenities, pays such a small amount of council tax still demonstrates the absurdities of the system." I agree!

Paul Sanderson JP LLB (Hons) FRICS FIRRV
President, International Property Tax Institute