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International Property Tax Institute

PRESIDENT’S MESSAGE

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All involved in property valuations for any purpose, but particularly for property tax purposes, will be aware of the importance of having access to up-to-date, comprehensive, reliable data concerning property transactions which form the basis for accurate valuations. It may therefore come as a surprise to some to find that parts of the USA are “non-disclosure” states in which, as the name suggests, real estate sale price data is not made public. Here are selected extracts from a recent article on the topic.

The author states: There was consternation when a listing agent publicly unveiled the sale price of a client’s recent commercial property acquisition. The client complained via social media resulting in a lively thread that saw one commenter suggest the offending discloser should be “publicly tarred and feathered, put in a stockade and pelted with rotten tomatoes.”

The property concerned was located in Texas, one of 12 non-disclosure states in the USA with no law requiring the release of real estate sale prices to the public or assessment officials. To the client and others, the publication of price paid in this case was overly self-promotional at best, and in a worst-case scenario, could be financially disastrous to the property’s owner and tenants.

“The agents want to brag about what they sold the property for … it’s marketing,” the client said. “There's nothing wrong with that in a normal state. But when you're in a non-disclosure state, you're putting your own desire to brand yourself and market yourself above the needs of the owner and/or tenants in the property that you've sold.”

At issue, the author continued, is the danger of informing appraisal districts that property sold for much more than its appraised value. Proponents of non-disclosure say revealing that information could lead to far higher taxes for property owners. For tenants, it could potentially double triple-net leases, in which the lessee pays rent plus property expenses, including utilities and taxes.

But, said the author, the practice has its detractors. Keeping sales data under wraps leads to errors in property tax assessments and could spark considerable under- or over-appraisals of properties. In Texas, the nation's most populous non-disclosure state by far, opponents say keeping it secret puts an unfair strain on homeowners, forcing them to shoulder more than their fair share of the tax burden.

"There's already a housing crisis, there's an affordability crisis, and people are getting taxed out of the houses they own," said a local politician. "We have to find as many means as possible to relieve that pressure and that strain, and I believe disclosure could be one of them."

Texas, Alaska, Idaho, Kansas, Mississippi, Louisiana, Wyoming, Utah, North Dakota, New Mexico and Montana are also non-disclosure states. Some counties in Missouri also don't require disclosure.

Non-disclosure proponents say CRE sale prices are appropriately kept under wraps. In addition to the potential to drive up appraisals for owners and tenants, disclosure violates Texas' historic tradition of valuing privacy. Sales data often includes "intangible values" like tenant names that are no one's business and could subtly and unfairly boost values, Texas realty professionals said.

What's more, Texas already levies higher property tax rates than most states, making any further disclosure a risky proposition, experts said. Though it varies by municipality, Texas' effective property tax rate averaged 1.74%, well above the national average of 1.1%, according to Business Insider's analysis of U.S. Census Bureau data.

Appraisal districts in Texas use complex algorithms that take into account the characteristics of properties and local real estate market trends to determine value instead of running sales comparables. Disclosing sales data without reforming the tax system would leave commercial property owners and tenants in the lurch, one commentator said.

Texas Realtors has consistently lobbied against disclosure bills in the Texas Legislature. This is largely because price disclosure is typically tied to property transfer fees, which the Texas Constitution bans, Texas Realtors Vice President of Governmental Affairs said. "The need to have that number in a deed record is therefore moot," he stated.

Conversations about disclosure usually center around property taxes, but one expert said that discounts the fact appraisers have access to copious amounts of sales comparable data through multiple listing services and look at factors besides price, like concessions and fees. "That's why we've opposed just putting a number on a deed record, because that's the lazy way to look at a number, and that's not the real value," he said.

The Texas Realtor lobbyist argues that values are the wrong thing to focus on when trying to lower property taxes. Tax rates set by local municipalities are the issue, he said. "The hard part is to show up at the city council, school districts and county budget hearings. And no one shows up to those meetings. If the community would show up during those budget hearings, it would force people that are elected to listen to them about budget prioritization," he continued.

But some think those arguments let commercial property owners off too easily, and bills that aim to make Texas a price disclosure state have been introduced in the state legislature for decades. One politician has consistently authored bills to study the practice or require disclosure of commercial real estate sale prices since being elected to the Texas House in 2015. He said that commercial properties are often undervalued by about 20% to 50%, giving homeowners an unequal tax burden in funding the state's public schools.

"I don't look at businesses or people who own commercial real estate as villains by any means," he said. "But I do think that paying your fair share is important, and I'm interested in exploring a way to do that that keeps Texas as business-friendly as it's been."

Opponents of non-disclosure point to research suggesting non-disclosure states lead to "unequal and unfair" outcomes. A St. Mary's University study found that Texas commercial property and high-end residential real estate were often undervalued by appraisal districts, citing an 8.34-acre parking lot that was officially valued at $7.3M when the city of Dallas purchased it for $42M in 2008.

A 2021 Montana State University thesis found that high-end residential real estate is more likely to be under-assessed than cheaper homes because of assessors' lack of knowledge of homes' amenities, wealthy homeowners' ability to challenge the assessments and lower amounts of transactions for high-value homes.

Researchers have made similar arguments in New Mexico, according to a 20-year-old study in Social Science Quarterly. It found "legitimate public concerns attached to real estate sales price non-disclosure" due to inequities in effective tax rates, tax revenue leakages and lower-priced homes contributing more than their fair share of property taxes.

The author concludes that even if Texas were to overhaul its system, it would be unlikely to curb accusations of unfair taxation. In both disclosure and non-disclosure states, appraisal values are often challenged to get the property owner relief on their tax bills.

From IPTI's perspective, we recognise that the legal framework surrounding property transactions is a matter for policy makers. However, greater transparency in property markets is usually helpful for a variety of reasons, not least of which is property taxation.

Moving on to IPTI activities, we have recently delivered more webinars in the series that are part of our partnership with the Institute of Municipal Assessors (IMA). The first dealt with the topic of "Development Land Assessment Valuation Challenges" in which our two experts looked at some of the problems associated with such valuations including highest and best use, the importance of conducting proper sales analysis, and the role that different levels of government play in land use designation, planning policies and zoning. The second webinar considered the issue of "Assessment Equity and Valuation - Which Takes Precedence?" This is always a topical issue and our two presenters looked at relevant legislation and the way in which case law has developed to assist assessors and appraisers in applying the legal framework correctly.

Coming up in the near future is our new 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.

I should also remind you about the online 2024 Mass Appraisal Valuation Symposium (MAVS) which we will 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 with the UK, a very critical article recently appeared in the news concerning the announcement of a council tax revaluation in Wales. Council tax is the annual property tax paid in respect of residential properties in England, Scotland and Wales and is based on banded capital values. However, no revaluation has taken place in either England or Scotland since the tax was introduced in 1993! Wales did carry out a revaluation in 2005 and is currently embarking on another one due to come into effect in 2025. The article states "It is the very worst of taxes, although there's tough competition for that title." Council tax is, as it stands,

“indefensible” says the Institute for Fiscal Studies (IFS). “Brutally regressive, it lets mansion owners off with a negligible contribution to their local authority, while those in cheaper homes, and least able to afford it, pay far too much. It acts as a kind of anti-wealth tax.” The article continues: “The history of this tax is disgraceful. Drawn up on the back of an envelope by John Major, rushing to abolish Margaret Thatcher’s career-ending poll tax, this temporary system was intended to be rapidly revisited. It never was. From the start, it was unjust. In his book, Follow the Money, the director of the IFS, Paul Johnson, points out that even in 1991, when the tax bands were set, band H, the most valuable properties, paid only three times more than the least valuable band A homes, despite being worth eight times more – and now that gap is far wider. Of all the needed tax reforms, this, he writes, is “a complete no-brainer”. The valuation of property has stayed unchanged since 1991 in England and Scotland - though Wales had a minor revaluation 20 years ago. He says the average Westminster property pays a mere 0.06% of its value, while in Hartlepool they pay 1.3%, a proportion more than 20 times higher.” It concludes: “It’s a much-hated, unjust tax, yet no government until now has dared revalue properties. Why? Political cowardice, even if, as in the Welsh plans, there are many more winners than losers. The losers will be richer, more powerful and mostly older and louder, while the long-running survival of such an unfair tax is a reminder of how those on the lower rungs can never raise the same level of political decibels in protest.” Those comments are strong stuff indeed!

Moving on to Singapore, the government plans to adjust the property tax framework from 2025, revising annual value bands for owner-occupied properties and offering benefits to developers under the ABSD (stamp duty) regime. These changes aim to address housing affordability, market stability, and fair taxation. In a bid to refine the property landscape and address the concerns of homeowners and developers alike, Singapore's government is set to adjust the property tax framework significantly. From January 1, 2025, the annual value (AV) bands for owner-occupied properties will see an upward revision. This strategic move, announced amidst the financial deliberations of Singapore's Budget 2024, is poised to reshape the real estate dynamics in the city-state, making it a notable development in the nation's fiscal policies. The adjustment of the AV bands signifies a pivotal change, especially for homeowners. With the lower threshold of the AV band rising from S$8,000 to S$12,000 and the upper threshold soaring from over S$100,000 to over S$140,000, a significant segment of the population is set to experience a shift in their property tax obligations. This recalibration aims to ensure that homeowners, particularly those in high-value properties, are subject to fair taxation, aligning with the market's current realities where rents have surged due to demand and supply constraints. The Finance Minister underscored this move as a step towards equitable taxation, ensuring that the burden of property taxes does not disproportionately affect certain segments of the society.

In the USA, it is reported that local governments in Maryland face losses of hundreds of millions resulting from lower property tax collections after a state agency missed a key mailing deadline. The State Department of Assessments and Taxation failed to mail about 107,000 updated property tax assessments before the deadline at the end of last year, according to senior state lawmakers. Left unfixed, county governments might receive a quarter of a billion dollars less in anticipated property tax revenue over a three-year period. This was described as a SNAFU by some commentators; if anyone is not familiar with this acronym, you may need to look it up as it is a bit too rude for an IPTI publication!

Another error caused problems for a US family based in Chicago, Illinois. After receiving a sky-high and incorrect property tax assessment, a suburban family said they were nearly bankrupted by paying their taxes, lost their third-generation business, and hundreds of thousands of dollars. Although the Cook County Assessor reversed his decision, admitting that the family is owed a refund almost $300,000 in overpaid taxes, they are having trouble getting that money back as it has already been spent by the local taxing bodies! This sounds ridiculous, but is reportedly the position. Let's hope they do eventually get their refund.

And finally, as a self-confessed "Swiftie", I was pleased to see that Taylor Swift knows a bit about property taxes. A recent article stated: Taylor Swift has become known globally for her catchy songs and record-breaking concerts. A lesser-known fact about Swift is that she has made some savvy tax moves to ensure that she pays less on property taxes than the average person. It continues: The Mills Act is a crucial economic incentive program in California designed to encourage private homeowners to restore and preserve qualified historic buildings. This game-changer was enacted in 1972, and qualified historic property homeowners can enjoy an average reduction in property taxes of around 50%. When Taylor Swift purchased a $25 million mansion in Beverly Hills, it was a strategic tax move that helped her save on property taxes. She could utilize this program by acquiring the historic Samuel Goldwyn Estate and ensuring its landmark status. While obtaining landmark status has its own set of challenges, Swift got approval. Since her home is considered a historic landmark, Swift is estimated to save 20-80% on property taxes through this method, along with tax credits for any renovations and eligibility for charitable contribution tax write-offs. If this 10,982-square-foot home didn't have landmark status, it's believed that the property taxes would leave Swift with an annual bill of $275,000. Due to the Mills Act and the tax incentives, it's estimated that her property taxes could be around $55,000 annually. This unique strategy has helped her drop her property tax bill for the year. As the title of one of her songs says, "Don't Blame Me"; she could have added, blame the Mills Act!

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