



---

## PRESIDENT'S MESSAGE

---

February 2024

As most readers of this newsletter will be aware, properly designed property tax systems are able to reflect changes in property values by amending tax rates appropriately. However, that simple approach seems to elude many politicians as they seek a “knee-jerk” reaction to rising house prices for fear of what rising property taxes may do to their electoral prospects!

A recent article from the USA is typical of many I have seen over the years; its title reads: “State lawmakers seek to limit property tax increases as home values soar”. Set out below are selected extracts from the article.

“Property taxes are rising along with real estate prices - particularly in the Mountain West. Soaring home values have increased property taxes for millions of homeowners in recent years, prompting action from state lawmakers to lighten the burden. “The biggest problem was they just went up so quickly. ... I think that’s one of the reasons why it became this rallying cry from the people asking for tax relief,” said an Idaho state representative.

The typical home value in Idaho increased from \$275,852 in November 2019 to \$434,224 in November 2023 - a 57% increase over four years, according to data provided by a real estate company which tracks the average of the middle one-third of home values.

Rising home prices typically lead to higher property tax assessments, potentially pushing up tax bills even when tax rates remain steady. Those rates are generally set by local governments, not legislatures. But public pressure has compelled lawmakers in several states, including Idaho, to use surplus state revenues to mitigate property tax hikes.

In Ada County, home to Boise and Idaho’s most populous county, the measure that was approved in March 2023 delivered nearly \$100 million in property tax relief. That amounted to a median cut of more than \$500 per home, the Idaho Capital Sun reported. “I think it was wildly successful,” a spokesperson said. “Really everybody across the state received tax relief, which was the objective of the bill.”

The vice president of state projects at the Tax Foundation, a pro-business research organization, said he expects many other states - both blue and red - to tackle the issue this year. “In virtually every state where the legislature meets this year, property tax relief bills will be filed,” he said. “This is a front-of-mind issue for many legislators across the country.”

States can set broad property tax policies - such as tinkering with assessment rates on real estate. But it’s generally local governments, including school districts and municipalities, that set specific tax rates and heavily rely on the revenue for day-to-day operations.

The effort across the country to provide property tax relief has sparked some concern that states could go too far, jeopardizing revenue for school districts and local governments. And some policymakers worry about overly broad relief that could benefit the wealthiest property owners at the expense of those most in need.

In Idaho, legislators had to override a veto from the governor, who was worried about jeopardizing funding for transportation projects and the cutting of a local election date. After the veto override, the governor said he was satisfied with legislative cleanups and, overall, was supportive of the property tax changes.

The issue is particularly ripe in the Mountain West, where home values skyrocketed after remote work gave Americans more residential freedom. Many well-heeled workers fled the East Coast and California for the mountains, pushing up housing prices.

In December, the governor of Montana launched a task force charged with proposing a property tax relief plan for legislators to consider at their next regular session in 2025. Recent legislation authorized up to \$675 in property tax rebates for 2023 and 2024, but the governor said the state needs “long-term reforms to keep property taxes as low as possible.”

In Wyoming, organizers aim to put a property tax relief measure on the statewide ballot after legislative efforts fizzled. Lawmakers already have introduced several alternative measures ahead of the 2024 session. And Colorado lawmakers will once again attempt to deliver lasting property tax relief after the failure of a ballot initiative pushed by their governor prompted a short-term legislative cut during a special session in November 2023.

The governor in Nebraska has proposed to reduce local property taxes by increasing the state sales tax rate by 2 cents, from 5.5 cents to 7.5 cents, the Nebraska Examiner reported.

Generally, American home values increase incrementally each year. The Case-Shiller U.S. National Home Price Index, a benchmark of average single-family home prices, shows a steady increase from the 1980s to the beginning of 2020. But those values shot up nearly 40% over

the past three years - far outpacing inflation rates for food, energy and other consumer purchases.

“So, they [homeowners] could be facing 40% higher property taxes. Even after you account for inflation, this is a very significant increase,” the Tax Foundation, said. “And they recognize they’re not getting 40% more or better government for these additional tax payments. ... So there is a public outcry.”

That outcry is especially pronounced among retired and low-income homeowners who often struggle to keep up with rising property taxes. “I think the main reason people get frustrated with property taxes is that they’re often disconnected from their ability to pay,” said the state policy director at the Institute on Taxation and Economic Policy, a research group that supports tax policies to create a “racially and economically equitable tax system.”

As with the recent wave of state income tax cuts, it’s unclear whether deep property tax cuts can be sustained over time as state revenues likely begin to decline. Nearly every state has enacted some form of property tax limit since the 1970s. Some implemented caps on how much valuations of a home can rise each year. Other states have pushed local jurisdictions to restrict rate increases.

But across-the-board cuts don’t necessarily provide relief to those most in need. While programs vary greatly, 29 states and the District of Columbia have enacted circuit breakers that cap property tax bills if they represent too large a share of a homeowner’s income.

Property taxes are generally more regressive than other taxes, the article states, meaning they take a larger percentage of income from lower-income residents. But circuit breakers can protect people whose home values have surged even if their incomes haven’t.

Idaho lawmakers last year diverted state surplus revenues to fund property tax relief - sending cash directly to local school systems to make up for lost property taxes. The legislation also increased the income limit and assessed valuation cap for residents participating in the state’s circuit breaker program, allowing more older, widowed or disabled homeowners to qualify. Homeowners saw an average property tax cut of 18% late last year, according to the governor’s office.

While lawmakers touted the law as a historic state investment in education, some commentators noted that the state simply swapped school funding sources. And it’s unclear how sustainable the tax cut will prove over time as pandemic relief dries up and the economy remains uncertain. In October 2023, Idaho budget officials announced state revenues came in nearly \$40 million below projected levels as sales and income taxes were weaker than expected.

Texas voters in November 2023 overwhelmingly approved a constitutional amendment under which the state will send \$7.1 billion to school districts so they can lower property taxes. The amendment, which passed with 80% support, also doubles the homestead exemption and caps property tax increases on certain business properties.

A member of a task force set up in Colorado that began studying the issue last year says many want the state to stay away from the issue of property tax rates. “The state doesn’t get any property tax revenue so, why should it decide how much money the local governments collect?” he said. “And I think that’s a pretty persuasive argument.”

The foregoing article raises a number of interesting issues but, as with so many similar discussions, seems to struggle to identify the real problem and find the right answer. Policy makers should ensure they understand the way in which effective and efficient property tax systems work, and then set about simplifying their system in order to achieve those objectives. If all else fails, they should contact IPTI for advice!

Moving on to IPTI activities, we are currently working on an international collaboration project which is considering the issue of “Future-Proofing the Valuation Profession”. Whilst much has been said in recent years of the challenges our profession faces, not much has been done to address the issues. IPTI is therefore managing a project which is looking at all aspects of the problem including attracting and recruiting people with the necessary skillsets, developing new and existing staff with various training and education initiatives, and providing them with worthwhile career opportunities to ensure they can be retained. We have six focus groups working on various aspects of this project and their work will lead to the preparation of a report which will be widely shared among the global valuation community. It will also be the main topic of discussion at the forthcoming “Conference of Valuation Agencies” that will be held in Dublin, Ireland on 29-30 October 2024.

We are also making good progress with 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. The call for papers is about to close (5 February), so if anyone would like to submit an expression of interest to present, please move quickly.

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.

Details of all our forthcoming events can be found on our website: [www.ipti.org](http://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 Alberta, Canada, when the economy started slumping in 2015, office vacancies in downtown Calgary began to climb. By 2020, the vacancy rate was sitting at over 30 per cent - about 14 million square feet of office space sat empty. The value of office buildings in the city's core had plummeted by more than two-thirds over that period, gutting the city's property tax base and creating a revenue crisis at city hall. Something had to be done. That something turned out to be the city's Downtown Office Conversion Program, which set a goal of removing six million square feet of vacant office space by 2031 and increasing the downtown population by 20 per cent in the process. With a start-up fund of \$200 million - and a goal of investing \$1 billion over the duration of the program - the city offered developers a sped-up approval process and, more importantly, \$75 per square foot in incentives to convert empty office towers into residential apartment buildings. To date, there are 17 conversion projects in the pipeline, 13 of which are active. These projects will result in the conversion of 2.3 million square feet of office space. Uptake of the program by developers has been so strong that the city announced a pause in October 2023 to secure additional funding to meet demand. The success of the program has other Canadian cities looking to emulate it and generated international attention for its boldness. We wish Calgary well with this important project.

In Vietnam, the government has been urged to impose higher tax on land speculators. The National Assembly's Standing Committee has requested the government to draw up a plan on taxing owners of many houses and land plots, as well as real estate speculators. The Chair of the National Assembly's Economics Committee, on behalf of the National Assembly Standing Committee, has presented a report on collecting opinions, explaining and revising the draft of the amended Land Law. Regarding land acquisition to implement development projects that don't use state money, he said the draft law has been amended with priority given to people who hold land use rights. The amendment will promote land-use rights commercialization and encourage users with land-use rights to invest in projects of land use planning. However, the National Assembly Standing Committee has requested the government to improve the effectiveness of law enforcement, especially the quality of development planning, which is a guiding tool for the State to serve socio-economic development plans. The National Assembly Standing Committee has also asked the government to design regulations to impose higher tax rates on people using large land areas, or many houses and speculating in real estate. The taxation will help discourage organizations and individuals from speculation which may hinder land accessibility of other investors who have the same or better capability to implement projects, since advantages now belong to people who are holding land use rights. One of the important issues put into discussion is the separation of land use rights and assets on land when calculating taxes on real estate transfer.

Good news for property taxpayers in Portugal, the price per square meter for the purposes of IMI and the tax assessment of properties will remain at €665 this year. The Municipal Property Tax Code establishes that one of the objective elements integrated in the calculation formula of the assessment system of urban buildings is the average construction value per square meter. The price per square meter of construction is one of the elements that forms part of the calculation formula for the evaluation system for urban buildings and, consequently, the determination of their tax asset value (VTP), on which the IMI rate is applied.

And finally, I started this newsletter with some examples of “unclear” thinking about how to deal with property taxes in the light of rising house prices. A proposed Bill in Nebraska underlines my point. A Senator introduced a Bill which would consider a local county's assessed property valuation the same as an “offer to purchase that property for the amount they valued it at”, if the homeowner decides to sell. The Senator said that the proposed Bill, which would give Nebraska homeowners 90 days to accept the “offer” by the local county, would put downward pressure on property valuations - and therefore property taxes - by holding the entity creating the valuation accountable to the assigned value. The flaws in such a scheme will be obvious to anyone who thinks about it for a moment. Leaving aside the problems associated with trying to achieve 100% accuracy with computer-assisted mass appraisal, would most municipalities have the funds to purchase any significant number of allegedly “over valued” properties? Would there have to be an appeal process to determine whether or not the assessed value was correct? What about the difference between the value as at the antecedent valuation date and the date when the property must be sold? And if the sale went ahead, what would the municipality do with those properties? Would they sell them at their “true” market value and incur a loss? How much loss could the municipality withstand? Would other taxpayers have to make up that loss? To take an example, if a property was, inadvertently, over-assessed by \$50,000, the owner may pay, say, \$500 more in property taxes, at least until the error was corrected through the appeal process. However, if the owner forces a sale to the municipality at the over-assessed value, on the face of it, the municipality would lose \$50,000 along with additional costs of selling the property. That loss will have to be made up by either cutting services and/or increasing taxes on other people. This seems to be another example of a “solution” that has not been thought through!

I ended last month's newsletter with a question: do you know the name of the movie where “the boys” had to get “the band” back together again in order to raise money to pay the property tax due on a property in Chicago? The answer is the 1980 film “The Blues Brothers” starring John Belushi and Dan Aykroyd; if you have not seen it, is well worth a watch.

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