PRESIDENT'S MESSAGE

January 2026

I would like to start this newsletter by wishing you all a very Happy New Year and by referring to a more positive article on property tax than the one that featured in my previous newsletter for December 2025.

This one is also from the Bluegrass Institute and is the second installment in a two-part series on property taxes. The first was Vance Ginn's article titled “The Case Against Property Taxes” to which I referred in my December 2025 newsletter. This month we look at a response by Jared Walczak, Vice President of State Projects at the Tax Foundation.

This article is titled “The Free Market Case for Property Taxes” and starts with the statement “Economic research consistently finds that property taxes are less economically harmful than other major taxes.” The author continues: “Americans have been paying property taxes since the colonial era - and complaining about them for just as long. It's about as American as you can get. (The paying and the complaining.)

These days, the complaints are getting louder, with calls for abolition. The objections are understandable: far too often, local government officials have failed to reduce rates as assessed values have skyrocketed, yielding large unlegislated tax increases. Reforms are warranted. But repeal?

It may be asking too much for most people to like property taxes, but all policy choices involve trade-offs, and for those who care about economic efficiency, neutrality, decentralization, and government accountability, the property tax deserves to be rated highly, if not in absolute terms, at least relative to the alternatives.

Spending restraint can reduce property tax burdens. But with property taxes accounting for 70 percent of local tax collections nationwide and upwards of 90 percent in some states, any discussion of property tax elimination must grapple with revenue alternatives.

Economic research consistently finds that property taxes are less economically harmful than other major taxes. A study of taxes across 21 OECD countries found that a 1 percentage point shift from income taxes to consumption taxes (like sales taxes) improves GDP by 0.74 percent, while shifting to property taxes increases GDP by 1.45 percent. An International Monetary Fund paper concluded that a 1 percentage point shift from income to consumption taxes drove a 0.92 percent GDP increase, while shifting to taxes on real property grew GDP by a full 2.47 percent. When it comes to economic growth, consumption taxes are better than income taxes, but property taxes are better still.

This is true, at least in part, because property taxes are more economically neutral than most alternatives. They have less of an effect on decision-making. It is axiomatic that whatever you tax, you get less of. Taxing income means less income-producing labor and investment, for instance. But because land is an immobile asset, taxing property does less to distort market decisions than taxing income or even sales. Even where improvements are concerned, research suggests that property taxes do relatively little to distort economic decision-making, since (unlike income or sales taxes) the tax does not penalize productivity or consumption.

Of the major taxes, moreover, property taxes hew closest to the "benefit test," under which taxes correspond - if imperfectly - to services received. No one would mistake property taxes for a pure user fee, but the value of one's property is a reasonable proxy for the benefits received from local services, like roads, law enforcement, emergency services, and schools. Just as insurance premiums are higher for more valuable properties, property taxes are proportionally higher for more expensive parcels.

Because property taxes are local and closely tied to the public services that shape property values, they allow residents to better judge whether tax levels match the value they place on local spending and to hold officials accountable when they do not. It's also highly transparent: people know their property tax bill but have no idea what they pay in sales tax. Transparency contributes to the property tax's unpopularity, but it's a feature, not a bug: people should know and be able to act upon their tax burden!

In Florida, where Gov. Ron DeSantis is championing property tax elimination, replacing the property tax would require a 15.3 percent statewide sales tax. Alternatively, if counties replaced the revenue themselves, sales tax rates would range from 9.8 to 32.5 percent. Other states would see similarly eye-popping replacement tax rates.

Replacing the property tax with newly granted local taxing authority is exceedingly difficult, because local sales and income tax bases vary widely across jurisdictions. There may be no feasible sales tax rate by which an agricultural county or bedroom community could replace its property tax revenue. State-level backfilling, however, isn't much better.

If the state assumes responsibility for replacing local revenue, lawmakers must decide whether to replace revenues at existing levels - permanently rewarding jurisdictions that previously imposed higher rates - or to use some other formula for revenue distribution, thereby inducing dramatic revenue swings that local governments would have no authority to offset. Even if the state undertakes full revenue replacement, moreover, lawmakers must figure out how to adjust in future years, since there will not be new assessments on which to base the transfers.

Under state-level replacement, localities lose any incentive to economize below their guaranteed level of funding. The loss of local autonomy hurts taxpayers. Currently, high-tax jurisdictions must justify those higher taxes, but under a system of full state backfill, they would receive the same amount regardless of what services they deliver or how well they deliver them. Furthermore, while lawmakers can build population adjustments into allocation formulas, these cannot fully account for increased investment into a community, which creates new expenditures. A new business or housing development brings more costs (schools, roads, public services) but little or no new tax revenue to cover them. Consequently, the smart strategy for a local official with a guaranteed revenue stream trying to stay within budget could be to avoid growth altogether, to block new construction, discourage business expansion, or make it harder for new residents to move in.

Property tax critics advance numerous arguments against the tax - and some of them are compelling. All taxes have their own set of downsides. One common objection is to the notion of perpetual payments on something one owns. But income taxes fall on the exercise of our ownership of our own labor, and at a philosophical level, one might equally ask why we'd be taxed on what we consume. If looking for a tiebreaker, one could do worse than the fact that property taxes are so much more conducive to economic growth. Functionally, moreover, the tax is for ongoing services to property - services that don't cease to be provided once a mortgage is paid off.

Is the property tax perfect? Far from it. But compared with any realistic alternative, it's better for economic growth, it better aligns with benefits received, and it avoids the perverse incentives and principal-agent problems raised by any state offset. Lawmakers should consider responsible mechanisms to arrest the rapid growth of property tax burdens, but they should stop well short of abolition. Against the notion of the property tax as the worst tax, let us add an important coda: except for all the others."

IPTI comment: I am pleased that this article provides a balance to the more negative one to which I referred last month. Always good to have a bit of balance when considering issues!

Time now to move on to IPTI matters.

In December we delivered a webinar on “Mass Appraisal Modeling Part 2 - Statistics and Application”. Building on the foundational concepts introduced in Part 1, this session focussed on the statistical tools and practical techniques needed to apply mass appraisal models effectively. Participants were shown how to work with and interpret different datasets, conduct exploratory analysis, and specify and calibrate models to reflect market behaviour accurately. Our two experts covered a variety of topics including: working with and interpreting various data sets; conducting exploratory data analysis; specifying and calibrating models to reflect market behavior; performing ongoing quality checks and statistical testing; identifying and testing for model deficiencies; applying models to broader property populations; determining when and how to apply bulk adjustments; and conducting valuation reviews to improve assessment accuracy and transparency.

On 13 January we will be running another webinar which we consider valuation organisations will find helpful. This IPTI webinar will focus on how assessing agencies can build in appropriate quality standards - and measure their effectiveness - to ensure that all aspects of their activities meet their stakeholders’ expectations. It is essential that property taxpayers and governments that bill and collect property taxes have confidence in the accuracy and fairness of the valuations that assessing agencies produce and maintain. To assist valuation agencies, IPTI has developed a “Quality Audit Framework” (QAF) which enables them to objectively review the extent to which they meet the relevant statutory requirements. This webinar will explain what the QAF is and how it can be applied.

Information about other forthcoming IPTI events - including conferences, symposiums, webinars, workshops, training, etc. - is available 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

I start with the UK by referring to the main property tax changes announced by the Chancellor of the Exchequer in her pre-Christmas Budget. She announced new multipliers (tax rates) for business rates (the annual property tax for non-domestic properties) that are due to be introduced with the revaluation of business properties in April 2026. She also made changes to the tax rates payable by property landlords on their rental income. There were some relatively minor changes to both stamp duty (payable on property transactions) and inheritance tax (payable on death). However, the post-Budget headline grabber was a new annual property tax for high-value residential properties in England. This was immediately dubbed a “mansion tax” by the media and created considerable controversy. The new tax will be paid in addition to the existing council tax payable in respect of residential properties.

The new tax, to be introduced in April 2028, will be a surcharge of up to £7,500 a year to be added to homeowners' council tax bills. The new property tax, based on values in April 2026 provided by the Valuation Office Agency, will be levied on property owners as follows:

- properties worth £2m-£2.5m will have an annual surcharge of £2,500
- in the £2.5m-£3.5m bracket, the charge will be £3,500
- in the £3.5m-£5m bracket, the bill will be £5,000
- for homes worth over £5m the bill will be £7,500

Whilst any change to the out-of-date and highly regressive council tax system is to be welcomed, in my view, the government should have announced a revaluation of all residential properties for council tax. That is the only way to improve the fairness of the system.

Moving on to New Zealand, the government has announced that there will be a new "rates cap" for annual property taxes enforced on local councils by a new regulator. It is likely that it will start with minimum increase of two percent and a maximum increase of four percent. The cap will take effect from 1 January 2027. It was not clear from the initial written statement how often the target might change, or exactly how it would be calculated, only that this could include "indicators like inflation at the lower end and GDP growth at the higher end". A minister said the government expected the band would be reviewed every three years, but that was subject to consultation, and he confirmed the growth figure would not be flexible for councils whose local areas achieved higher rates of growth. The Prime Minister said ratepayers were "fed up". He continued, "They're tired of having to prudently manage their own budgets while rates continue to go up, only to see their local council fail to demonstrate the same fiscal discipline." He also said that the government was not considering allowing councils to raise revenue through a levy on tourists, like a bed tax. He added, "We want councils to be focused on the money that they've got and make sure they're doing a much better job of managing it. Some councils are doing a really good job, some councils are doing a very, very poor job."

In the USA, a recent article reviewed the year in property taxes in New Jersey. It stated: "From start to finish, 2025 featured a lot to follow on the issue of property taxes. The year began with news that the average property-tax bill levied in New Jersey surged to a record $10,095. Several months later, Gov. Phil Murphy and lawmakers enacted a new annual budget that included more than $4 billion for direct property-tax relief programs. That allocation included enough funding to formally launch the $600 million Stay NJ program, which is boosting relief payments for thousands of senior homeowners. Still, concerns about affordability and property taxes were key issues in the fall as New Jersey voters made their choices in the gubernatorial and legislative elections, according to exit polling. And not everyone was happy to see the $600 million in funding set aside for Stay NJ going to only senior homeowners, and not tenants, who also struggle indirectly under the weight of the nation's highest local property tax bills via the monthly rents charged by their landlords. With the year now coming to a close, lawmakers are considering several measures that could have property-tax implications for homeowners. Among them is a bill that calls for increasing the fees that county boards of taxation charge when a homeowner seeks to appeal their property assessment.

In Portugal, it was announced that the price per square meter for IMI property tax purposes and the fiscal valuation of properties will fall from €615 to €570 in 2026, a drop that puts an end to three years of maintaining the higher value. "The average construction value per square meter is set at 570 euros, for the purposes of Article 39 of the Municipal Property Tax Code, to be in force in the year 2026," reads the decree published in the Diário da República (Official Gazette). The rules defined by the IMI Code determine that the base value of buildings (Vc) corresponds to the average construction value per square meter, plus the value per square meter of the building's land, fixed at 25% of that value." The average construction value is determined taking into account, in particular, "the direct and indirect costs incurred in the construction of the building, such as those related to materials, labour, equipment, administration, energy, communications, and other consumables." The price per square meter of construction is one of the elements that makes up the calculation formula for the urban property valuation system and, consequently, the determination of its taxable market value (VTP), on which the IMI rate is applied.

And finally, two points to mention following the recent UK Budget. First is that a number of pubs and hairdressers have banned Labour Members of Parliament from their establishments in response to what they describe as "outrageous" increases in business rates that are due to take effect in April 2026. Secondly, having mentioned the planned changes to council tax earlier in this newsletter in a relatively measured way, I should add that rather more "sensational" headlines were used in some newspapers to describe what is planned. One headline read "Big Brother Fury – Satellites to Spy on Homeowners" and referred to the "sinister" Valuation Office Agency (VOA) "snooping" on people's homes as if it was some secret spying organisation! The agency is also "accused" of using modern technology such as aerial photography, satellite imagery and automated valuation models to "strong arm Brits into paying more tax"! Many years ago, when I was then in the VOA as the agency's Director of Professional Services, I was described in the same newspapers as the agency's "Chief Snooper". It is mildly amusing to see that these newspapers have not lost their thirst for misleading banner headlines, erroneous content, and abject stupidity!

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