



PRESIDENT'S MESSAGE

October 2026

There is no respite from the turmoil currently affecting much of the USA in relation to property taxes. In an article with the title “The Property-Tax Temper Tantrum”, the author refers to a recent paper to which we have published a link on the IPTI website.

The article states: “Everyone wants the government to pay for stuff. We need our Social Security, our Medicare, our police and fire protection, our elementary schools; heck, some would add universal health care and free college too. But no one seems to want to pay for it.

While Democrats have joined the call for income-tax cuts (despite a federal debt in the tens of trillions), many states, mostly red-to-purple, have targeted local governments’ largest source of tax revenue in what the Yale law professor David Schleicher is dubbing the “Great American Property Tax Freak Out.”

Schleicher’s short new paper on the subject is a tour de force. He explains where this movement comes from and its likely consequences, drawing on several pieces of important empirical research. Like the property-tax revolt of the 1970s, this rebellion follows a big run-up in home prices. High property values are great for homeowners when they sell, but they also require them to pay higher taxes in the meantime.

Obviously, if rising property values cause a local government to collect more money than it needs, a rate cut can be a reasonable idea. But many new laws and proposals - which Schleicher extensively compiles - push far beyond that. Wyoming recently exempted one-quarter of the first million dollars of a single-family home’s value from taxation, and it had already capped rates, making it difficult or impossible for localities to make up the lost revenue. Florida will soon vote on a referendum to increase its homestead exemption for non-school taxes to \$250,000, which would exempt most homeowners from such taxes entirely.

Some advocates even contend that property taxes are fundamentally illegitimate—akin to “paying rent” to the government for one’s own property - despite the history of such taxation dating back to colonial times.

Whatever the merits of their case, when homeowners throw a temper tantrum, they’re likely to get their way. As it happens, the political power of homeowners is the subject of another new paper this week, which notes that the median voter is a homeowner - and adds the interesting finding that the most politically involved homeowners are also the ones who enjoy the most housing appreciation. They are “more likely to purchase undervalued properties, time housing transactions more effectively, and invest more in home maintenance and improvement.” Schleicher details a number of practical consequences to continuing down this anti-property-tax road.

First, to the extent local governments are no longer funded by property taxes, they need to be paid for some other way to prevent service cuts. Property taxes are often understood as residents “taxing themselves to provide services for themselves,” as Schleicher puts it. By contrast, the typical modern “reforms” to property taxes - such as big exemptions for owner-occupied “homesteads” - have the effect of requiring homeowners’ services to be funded by others, such as owners of commercial property (including apartments, which by extension, puts some of the shifted burden on renters).

Next, the movement threatens local control. State laws are the main way in which advocates seek to constrain local taxes and, in some cases, state funding may be needed to make up the difference. This has the effect of making localities dependent on another level of government. If states ultimately do “backfill” lost revenue, richer areas may find their residents paying state income taxes to support services in poorer municipalities, and interestingly, some of the pushback to the revolt comes from wealthy suburbs.

What about zoning laws? Traditionally, property taxes have been understood to discourage cheaper and denser housing. (All else equal, cheaper property directly translates to lower tax revenue, while denser occupancy translates to more people to provide services to at a given revenue level.) One might assume that reducing property taxes would have the opposite effects, but the key nuance is that the taxes will be replaced by others with their own effects. Local governments may hesitate to allow owner-occupied housing if it generates less tax revenue, but readily permit commercial uses that pay more, for example - though property owners would face the opposite incentives when it came to building, as they’re the ones paying the taxes rather than collecting them. Or, if funding increasingly comes from the state, tax-revenue concerns may become less important to zoning decisions.

Perhaps the most troubling impact, though, is on the supply of housing to new buyers, including young couples wanting to start families. Here, Schleicher notes a recent paper coauthored by Manhattan Institute senior fellow Arpit Gupta, which makes two main points supported by both theory and empirical analysis.

One, property taxes encourage people to downsize if they own more house than they need, a situation especially common among retirees whose children have moved out. And two, property taxes have an interesting effect on home prices. Buyers pay attention not only to the purchase price of a home, but also to monthly payments that include property taxes - so when property taxes go up, buyers are willing to spend less on the home and the purchase price goes down, making them more affordable for young buyers. Turning to data on property reassessments from North Carolina, the authors find that a one percentage point increase in the property-tax rate reduces house prices by roughly 23 percent.

Essentially, property taxes encourage older couples to leave houses they no longer need and make it easier for young families to afford a home. To be anti-property-tax is to be anti-family-formation. More generally, I would add that property taxes, as annoying as they can be, have a number of basic economic advantages. They fall in large part on the value of land, one of the few things you can tax without reducing the supply of it. They do a decent job of matching residents' tax bills with the services they use and their ability to pay. In some areas they're pretty much the only good option for collecting revenue.

Like any tax, property taxes should come down when they're too high. But ideally, we'd have those conversations on a local level - rather than staging a national freak-out, raiding state governments' coffers, and undermining young families in the process."

Comment: The debate over property taxes continues. In broad terms, the best tax for most people is one that someone else pays! The foregoing article adds some useful comment to the debate and the paper to which the article refers is available on the IPTI website via the link below:

<https://www.ipti.org/property-tax-papers>

Time now to move on to IPTI matters. Last month we held a very interesting meeting of IPTI's corporate members on the topic of "AI Applications / Tools for Management of Assessment and Property Taxation". The discussion was led by IPTI's Technical Advisor, Mordechai Katzman and involved a lively exchange of views around the use – and risks – of AI.

We also held the first in our series of four workshops on the topic of “Compulsory Purchase and the Assessment of Compensation” last month. These workshops are being delivered by IPTI in partnership with the RICS and involve three online sessions and a final hybrid session timed to coincide with our Caribbean conference in Kingston, Jamaica. I co-presented this first workshop with my IPTI colleague Uche Obi and it seemed to be well received by the participants. The first session was recorded so it is not too late to register and catch up with the series if anyone would like to.

I am pleased to say that IPTI completed its report for a client on the topic of how data centres should be valued for property tax purposes. As readers will be aware, there has been an exponential growth in the development of data centres over recent years, particularly the very large ones that are designed to deal with the rapid rise in the use of artificial intelligence. However, they are not without controversy as they consume huge amounts of power and some need high volumes of water. As the “hyperscale” data centres are relatively new and few are the same, and they contain large amounts of data processing and storage equipment, there are challenges in how they should be valued for property tax purposes. I am sure we will be talking about this topic at many forthcoming IPTI events.

On the subject of IPTI events, we have a number of in-person conferences coming up over the next few months. Full details about all these events, along with other webinars, workshops, etc., are 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>

Starting with Bulgaria, it is reported that property tax assessments are set to increase by a total of 100% by the end of 2029 under a plan being prepared by the ruling Progressive Bulgaria coalition. The increase would be introduced in stages, with tax assessments expected to rise by 30% next year, followed by two additional increases of 35% in 2028 and 2029. The plan was outlined by Progressive Bulgaria MP Stefan Belchev in an interview with BNT. He said the package of tax legislation would include new measures to increase state revenue, despite the government's stated intention not to raise taxes. One of the measures under discussion is an update of property tax assessments, which have remained based on 2007 levels. “Because since 2007, tax assessments have been anchored at 2007. Since then, at least inflation has risen several times, so for me there is nothing more normal than an update,” Belchev said. He explained that assessments are expected to be raised by 30% initially and then by another 35% in each of the following two years, resulting in a cumulative 100% increase by the end of 2029.

There are currently no further details on the planned changes or an impact assessment showing how they would affect the property market, or the taxes and fees paid by households, according to the Segla newspaper. It is also unclear whether the government intends to change the tax rate itself. Municipalities currently have considerable discretion in setting property tax rates, which range from 0.1 to 4.5 per mille of the tax assessment. If local governments leave the rates unchanged, the higher assessments would nevertheless lead to higher bills for property owners. For a primary residence, the tax base is reduced by half. Property tax revenues have for years been considered low compared with the actual market value of real estate.

Having mentioned the valuation of data centres earlier in this newsletter, here are extracts from a recent USA news article on the topic. “Property tax is a major, often-overlooked cost in AI data center ownership that should be strategically managed from design through operation, not treated as a yearly accounting task. In the race to bring new AI data centers online, the evaluation checklist has been standardized down to a site’s access to power and water, reliability, infrastructure density, connectivity, and room to scale. Yet one of the highest and most persistent costs of owning a US data center rarely makes it into early conversations: ad valorem taxation – property tax assessed on value under state and local law. The starting point is the often-overlooked difference between the facility and the servers inside it, from both value and taxation standpoints. A modern facility’s property tax value should consider both its replacement cost and its ability to earn income. Server value is driven far more by rapid technological depreciation and by which components within the rack are considered taxable in the first place. On the facility side, most of what moves valuation traces back to one reality: capacity is getting harder to secure. Power and water availability now take precedence over everything else, with scarcity increasingly dictating where a data center can be built at all. The rest follows from there – higher reliability tiers demand exponentially more infrastructure but command premium rents, while rising rack densities push AI workloads past the limits of traditional air cooling toward costlier, specialized systems. More generally, the ability to scale at high density, with matching connectivity, is rare enough to command its own premium. Each of these factors increases value and becomes a line item that a tax assessor can point to. The tax question centers on useful lives – the period over which an asset is expected to be usable and therefore depreciated – as well as functional and economic obsolescence. The most expensive components of an AI facility live far shorter economic lives than the building shell and back-end cooling plant (such as water loops, chillers, and cooling towers) around them, compressing depreciation assumptions into a much tighter window. Design deficiencies or “overbuilding” in speculative markets can themselves be value-diminishing factors. Whether that equipment is even taxed at all depends on state law, but where it is, the lower value pulls the assessed value and the tax bill down with it.

Servers require a separate review because their tax treatment complicates the valuation of the data center as a whole. A large share of the AI stack is effectively intangible and considered non-taxable in many states. And because integrated rack systems function as single computational units that fuse hardware, networking, and infrastructure, an assessor's cost records may not map neatly to what is taxable. With few comparable assets to anchor valuations, the cost approach is often the only viable path, placing a premium on getting the underlying data and assumptions right. The goal is not to pay less than what is owed, but to ensure the assessment reflects what these assets are genuinely worth. In practice, that means segregating taxable from non-taxable costs: identifying software, warranties, and pollution-control equipment that may be excluded or exempt. It means treating shorter useful lives as a genuine through-line rather than an afterthought, while still recognizing that more specialized infrastructure is not always the answer. And it means using income-based valuation where the facts support it and staying engaged across the full tax cycle rather than treating assessment as a once-a-year formality. The point is simple. In an environment with few comparables and fast-moving technology, cost and income approaches carry more weight, and the assumptions behind them deserve scrutiny from the design stage onward. Power and site have earned their seats at that table. Tax and valuation belong there, too."

And finally, there is continuing controversy about the UK government's intention to introduce a "high value surcharge" for residential properties worth more than £2 million. This has been dubbed a "mansion tax" and some are now likening it to the 1696 window tax! The former window tax led homeowners to brick up their windows to avoid the tax. Several London boroughs have voiced their opposition to the new tax. Nearly 24 per cent of homes in Westminster and 30 per cent in Kensington and Chelsea are worth more than £2 million, according to the Institute for Fiscal Studies. In a letter to the government the councils state: "This is the most badly designed tax on properties since the one on windows, 330 years ago." As a historical note, in 1696, William III started taxing homeowners in England and Wales based on how many windows they had. Many bricked up their windows or built dark, gloomy homes to escape the levy. The windows tax started out at four shillings a year for homes with ten to 20 windows, and eight shillings for more than 20. The tax went up over the years while the threshold for the number of windows was reduced, leading to the creation of dingy, poorly ventilated, living spaces that spread disease. After a national campaign, driven by medical professionals, the tax was abolished in 1851. The councils' recent letter suggested that the mansion tax would also result in avoidance tactics to bring down house values. However, short of demolishing a mansion, it is not easy to see how such avoidance would work. Of course, apart from millionaires, there may be few people who think a mansion tax unfair.

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