IIFI IPTI
International Property Tax Institute

PRESIDENT'S MESSAGE

April 2022

I must start this month's newsletter with reference to the terrible situation in Ukraine. IPTI maintains strict neutrality in all matters, in particular when it comes to geo-political issues. However, like most people, I and all my IPTI colleagues are appalled at what is happening in Ukraine and hope that common sense will prevail and the tragic loss of life, serious injury and destruction will be brought to an end as soon as possible. There are some promising signs of a desire to resolve the conflict; let's hope they materialise.

Moving on to happier matters, I am pleased to record that April 2022 marks 10 years since I joined IPTI. More importantly, this year marks 25 years since IPTI was founded by my good friend Jerry Grad (IPTI's CEO) with support from a number of professional colleagues. Over those 25 years, IPTI has achieved a great deal in terms of arranging conferences, seminars, symposia and other events that were not only interesting and informative, but also very enjoyable. There has always been a "family feel" to IPTI and I am pleased and proud that we have been able to maintain that approach for such a prolonged period, particularly through the recent global pandemic. In addition to events, IPTI has provided independent expert advice and guidance on a wide range of property tax policy and practice issues, to both the public and private sector, along with training and education encompassing all aspects of professional valuation, assessment and taxation. We are planning to hold an event later this year to celebrate IPTI's achievements and I hope that as many of you as possible will be able to attend.

Moving on again, I would like to refer to three documents that IPTI has recently received. The first of these is a paper entitled "Taxation of Land and Buildings - Revenue Importance and Tax Policy" written by a long-time IPTI colleague, Anders Muller. Anders is a Danish Economist who worked for 40 years in property valuation for the Danish Ministry of Taxation. He has also been very active as an International Adviser on Property Tax and Valuation. In this capacity, he has worked for the IMF, OECD and the EU. The paper has been published by IPTI and is available on our website: https://www.ipti.org/news/paper-on-property-tax

The next item is a book entitled "Surveying the Domesday Book". It has been written by Simon Keith, a former UK VOA colleague of IPTI President Paul Sanderson. As the publisher states: "The Domesday Book, commissioned in December 1085 by order of William the Conqueror, is generally thought to have been used to assess wealth and assets to collect taxes, and represents an incredible wealth of information on land-use, local economies, and even land disputes between neighbours. This innovative analysis of the Domesday book from the perspective of a professional land surveyor and valuer aims to calculate a

timetable for its creation, along with analysing the survey's purpose, the nature of the data collected, and how it was used. By reverse-engineering the survey, Simon Keith proposes that, while the document was an outstanding administrative success as a survey, it was in fact a fiscal failure which was never used directly to collect any taxes. This fascinating study examines the foundation of the well-established, successful and sophisticated hidage assessments upon which the Domesday book was built, discusses the likely timeline of the survey, and examines the logistical problems which are universal to surveyors throughout history." If anyone is interested in finding out more, and possibly ordering a copy, the publisher's website is available via the following link: https://www.oxbowbooks.com/oxbow/surveying-the-domesday-book.html

The third document is a discussion paper entitled "Post-Corona Balanced-Budget Super-Stimulus: The Case for Shifting Taxes onto Land". The Abstract states: "The post-Corona economic environment puts a premium on finding fiscal means to stimulate the economy while continuing to finance current levels of expenditures and debt. We develop and carefully calibrate a model of the US economy to show that an increase in the tax rate on the value of land, balanced by decreases in the tax rates on the incomes of capital and labor, can meet this need. We find that the US share of land in total nonfinancial assets is more than 50%, so that the tax base is very large. This is corroborated by very high quality OECD data for other industrialized economies that, almost without exception, find land shares of between 40% and 60%. Our baseline proposed tax reform is an increase in the tax rate on the asset value of land from its current 0.55% to 5.55%, accompanied by reductions in tax rates on capital and labor incomes of 28 and 10 percentage points, respectively. In a representative household model, this increases welfare by 3.4% of steady state consumption, and increases output by almost 15% relative to trend. In an economy with separate groups of workers, capitalists and landlords, the output gain is the same, while the welfare gain increases to 6.4% on average across the three groups. Welfare and output gains for a wealth tax that raises the same revenue, and which increases the tax rates on capital and land equally, are only half as large as the baseline. Welfare and output gains for an optimal tax reform, under the assumption that the tax rate on the value of land is capped at 20%, are approximately twice as large as the baseline. This reform raises 55% of all tax revenue through land taxes, with the remaining 45% raised through consumption taxes, while all income taxes are abolished." The full discussion paper is available via the following link: https://cepr.org/active/publications/discussion_papers/dp.php?dpno=16652.

Here is a link to a summary of the paper: https://voxeu.org/article/post-corona-balanced-budget-fiscal-stimulus-case-shifting-taxes-land.

IPTI attended a recent presentation on the topic by Michael Kumhof, one of the co-authors of the paper, and we had a subsequent discussion with him about some of the issues concerning LVT. Michael said he would be pleased to receive any comments from the IPTI network about the discussion paper and, in particular, the practicality of the recommended move to greater dependency on taxing land values. He is planning to produce another document on the practical aspects of LVT in due course and would appreciate feedback from IPTI members. Michael's email address is: michael.kumhof@outlook.com

Please send any comments you may have directly to Michael, but please copy IPTI (lkonet@ipti.org) into your email as we would also be interested in your comments.

In a recent newsletter I referred to the development of the "metaverse". There have been more recent articles on that topic, but another "out of this world" topic that attracted my attention was an article published on the website of The Institute of Art and Ideas entitled "Can you own the Moon?" This was a fascinating discussion which started off with the following introduction: "Billionaires are making regular trips to space for a reason: they want to harness the potential economic payoff. We need to come up with a framework for property rights in space that will benefit all of humanity, not just the super rich, argues Rebecca Lowe. Under her proposal - inspired by philosopher John Locke - people could earn the right for the exclusive use of plots of moon land, as long as this advances certain moral aims. Revisiting the Outer Space Treaty of 1967 that bans any appropriation of planetary or lunar land might be worth doing, writes Tony Milligan. But using John Locke's 17th century framework is not the way to think about property rights in space he says. The Solar System is a very different place from Earth, and a whole new type of economy would need to be invented for it. In two separate articles, Rebecca Lowe and Tony Milligan put forward their arguments on how we should think about property rights in space."

Rebecca Lowe states: "These billionaires give us good reasons to think hard about property rights in space. Firstly, it's not enough just to state that doing something - even as outlandish sounding as privatising the moon - is wrong. You need to be able to explain why. What if humankind needed to escape Earth? Would it be fundamentally impermissible to try to inhabit the moon, in such a situation? We'd struggle without any recourse to private property. The more you think about it, the clearer it seems that a morally justified system for assigning and governing property rights in space could present vast benefits.

Of course, this doesn't mean that we shouldn't consider potential costs. Debate rages about property-related injustice and unfairness on Earth: not least regarding the decisions and actions of our forebears, relating to the acquisition of property rights, the distribution of access to natural resources, and the colonisation of areas already serving as the livelihood and homes of indigenous peoples. Debate continues about the future of Earth, too - about how we should act now if we are to conserve our planet appropriately, for its own sake, and for future generations. All this reminds us of the serious costs that property-rights regimes can impose, and the importance of ensuring that legal claims to ownership are morally justified.

The primary problem I address is how to avoid the perils of 'first come first served'. This is the problem that it seems wrong (and a missed opportunity, all round) to prevent individuals from realising any right they hold to acquire property. But that it also seems wrong if their doing so precludes others from ever being able to do so themselves. Of course, there's also that serious problem of how we get to the point of individuals being legally able to acquire space stuff in the first place.

Basically, individuals should compete for the exclusive and exclusionary use of "plots", through a market-based competition consisting in the payment of rent. The term 'rent' isn't quite right, however, because I conclude that nobody owns the moon. Rather, 'renters' pay their 'rent' into a fund that is used to enable other individuals to compete against them for plots - on the grounds that everyone has an equally strong potential claim, but only a tiny number of highly-privileged people would currently be able to realise this potential. The size of the plots, and the rate of the rent, is variable dependent on supply and demand. Thanks to Henry George, renters own in full the profit they make from the use of their rented land. And

they can use it for any morally justified purpose. However, certain stringent conditions apply, relating particularly to the concerns of 'spoilage' and urgent need - concerns that betray the Lockean theory underpinning the paper's approach. The rent should be paid into a fund that generally serves to enable an increasing number of individuals to compete for plots of moon land, whilst - partly through a rebate system - helping to meet current urgent need, and to conserve land (on the moon and Earth)."

Tony Milligan states: "For several years now, there has been a phantom conflict going on between two political legacies of the 20th century, each trying to make headway within discussions about space futures. On the one hand, there are fierce opponents of private sector activity in space. Particularly when it is associated with billionaires. On the other hand, there are free marketeers who see space as an opportunity to base democracy around the free market, rather than treating the market as one democratic institution among many.

What we get in Lowe's paper, as the way forward from the OST, is an application of John Locke's 17th century political theory to a partitioning of the lunar surface. Or, at least, the application of a version of Locke's account of how private property arises, is transferred and operates to the benefit of society at large. Lowe's belief is that "a clear, morally justified, and efficient system for assigning and governing property rights in space - in land, in other resources, in the vacuum itself, and in anything else that might be found - would present vast benefits". I have no particular opposition to private property rights, but believe that we cannot run plausible arguments about the distribution of space resources independently of a more detailed understanding of the resources in question. We fall into a trap if we think of lunar resources as analogous to the kinds of resource that Locke was typically concerned with. The lunar resources that matter most are not laid out like large tracts of open and unworked land that might be divided up fairly among settler farmers whose claim will then be reinforced by their working of the land. Strategic lunar resources tend, instead, to be far more concentrated.

Licensing is better adapted to a multi-player environment rather than a binary world of states and individual property owners, driven by much the same human nature. There are multiple, legitimate claims that may be made in relation to the Moon, by agents whose primary concern is science, environmental protection, state presence, political equilibrium between competing powers, and yes, private financial concerns. Trying to flatten out this uneven terrain of claims by appeal to any single institution (such as property or quasi-property) looks unrealistic. Accessible space resources are finite, not infinite. It is far from obvious that we will ever be able to access resources beyond the Solar System. And, for practical purposes, it is also a closed system. Little, if anything, comes from the outside. This Solar System is everything that we and future generations may ever have to work with. And much of it is made up of gas giants whose gravity wells may be too deep for us to use in any large-scale manner. We have far less to work with than is sometimes imagined. One Moon, one Mars, a few smaller bodies and the asteroids. The kind of economy need for space is something to be invented, rather than transplanted from the past and John Locke's theory of property."

These brief extracts from much longer papers provide food for thought and, although not mentioned in either of the papers, the possible implications for some form of property tax on planets, etc., beyond Earth. Perhaps IPTI needs to go intergalactic rather than merely international to address these issues!

Moving on to Earth-bound IPTI activities, we have some interesting new projects that we are currently working on. We also recently held another in our series of joint webinars that we deliver with the Institute of Municipal Assessors (IMA). The latest IMA-IPTI webinar focused on "Portfolio Sales Involving Multiple Properties - What Value Goes Where?" It is clear that portfolio sales most often occur for investment grade properties. These sales can include many specific properties in the portfolio transfer. In an increasingly uncertain economic environment, some corporations are turning to their existing real estate as a source of liquidity, with the sale of portfolios becoming a common strategy. Acceleration of portfolio sale-and-leasebacks is being attributed to the volatility created by current events. In the webinar, our experts explored these transactions, and, using real examples, proposed a best practice course of action for segregating out individual values for analysis and defense. A very interesting presentation.

Looking ahead, we have our forthcoming Mass Appraisal Valuation Symposium (MAVS), a virtual event, taking place on 22-23 June. This will be a joint IPTI-IAAO event and the MAVS agenda will be available shortly. We have a number of additional IMA-IPTI webinars coming up covering a wide range of topical issues and our Caribbean conference which, all being well, will take place in-person during October. IPTI is in the early stages of planning the next Conference of Valuation Agencies (CoVA 2022) which, again all being well, is likely to be an in-person event in early December held at a venue in the UK. As usual, for full details of forthcoming IPTI events, please visit 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.

In Estonia, the Parliament passed a bill to amend the Land Valuation Act, the Land Tax Act and other Acts, which introduces amendments that are necessary to carry out the next regular mass valuation of land later this year. The amendments, initiated by the government, update the criteria for calculating the value of land and bring the land tax into conformity with the market value of land. The last mass valuation of land in Estonia took place in 2001, and in nearly 20 years, the value of land has increased sevenfold on the average. The taxable value obtained as a result of the mass valuation of land will be the basis for determining the size of land tax, of payments for tolerating utility networks, and of the use fee under different usufruct contracts. According to the law, the next mass valuation of land will take place in 2022, and after that, valuations will be carried out every four years. The results of the mass valuation of land will be implemented from 2024. The Act will reduce the maximum land tax rates that local governments can impose. For example, the maximum tax rate will be 0.5 percent of the taxable value of the land instead of the current 2.5 percent on residential land and forest land, and 1 percent on commercial land. In order to ensure a smooth transition to the new price level for taxpayers, a 10 percent limit will be imposed on the annual increase in the land tax amount.

Moving on to Pakistan, what is described as "a radical change" has taken place in Sindh province. Under the Urban Immovable Property Tax Act, 1958 - the original law adopted by the provinces - responsibility for property tax sat in the domain of local governments. However, due to poor local capacity, its collection was assumed by the provincial governments. Their capacity turned out to be even worse. Whatever was collected was never fully transferred to the local governments. So, the law in Sindh has given the collection back to the local level. Globally, property taxes rank third or fourth in the total revenue collection.

Generally, the federal or central governments run on income taxes, the provincial or state governments on consumption taxes and the local governments on property taxes. In Pakistan, the yield from property tax figures nowhere. In FY20, all provincial governments together collected a mere Rs9.7 billion. In Sindh, the collection was just Rs2.4 billion, less than the Rs2.6 billion collected five years ago. The potential yield in Karachi alone is estimated between Rs80-100 billion. However, there remain many challenges including a large number of exemptions that will have to go. The assessment of annual rental value must reflect the real state of affairs. Concessional taxation of owner occupants opens the door for massive evasion. In a city as big as Karachi, less than a million property units form the base. Even its expected doubling, following a survey planned with World Bank support, will not make much difference unless these structural issues are addressed.

In Hong Kong, the recent Budget introduced progressive property rates. The Financial Secretary said the implementation of a progressive rating system could earn the government HK$7.6 billion annually. Hong Kong aims to introduce a progressive rating system for residential properties that would see owners of pricier flats paying more in property rates. For properties with a rateable value of HK$550,000 or below, it was suggested the rates will be charged at the current level of 5 per cent. For units with a higher rateable value, the first HK$550,000 would be charged at five per cent and the subsequent HK$250,000 will be charged at 8 per cent. Units with a rateable value exceeding HK$800,000 will be charged at 12 per cent. The government also proposed restricting property rates concessions for domestic properties to apply only to individual people on only one residential property, meaning companies that own domestic properties would not be able to apply for rates concessions.

And finally, I was sad to see that property taxes, particularly school property taxes, are said to be “the most hated levies in Pennsylvania”. One complaint is that senior citizens - who don’t have any children in the schools - pay a large part of the taxes whose constant increases makes it hard for them to stay in their houses. It is also said that high property taxes make it increasingly difficult for young people to buy houses. The elimination - or at least reduction - of property taxes has been talked about for decades but nothing significant has been done to solve this ever-growing problem. The latest proposal is a call for increases in the income and sales taxes, but these have been talked about endlessly in the past. Politicians have said that some tax increases are needed, contending that school property tax rates are forecast to double in 17 years and triple in 30 years. One politician said, “Everybody wants to get rid of property taxes as long as someone else is the one who is going to pay the replacement tax.” He went on to say, “Pennsylvania is not a growth state. We are attracting seniors. You know why? We don’t tax retirement income. We’re one of six states in the United States that don’t.” In a statement he said, “House Bill 13 would end Pennsylvania’s archaic reliance on property taxes that unfairly burden our growing population of seniors and stifle our economy. It would enable us to transition to fair and reliable funding sources for our schools, which will provide more effective management at the local level. If we do nothing, Pennsylvania residents will continue to lose their homes and the precarious nature of school funding will continue.” Let’s hope that schools will at least teach their pupils about the benefits of properly administered property taxes!

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