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PRESIDENT'S MESSAGE

June 2022

From time to time, the possible introduction of a wealth tax is contemplated by those jurisdictions which don't have one; I should add that not many jurisdictions around the world do have a wealth tax. I recently read an interesting article from a Professor of Taxation at the Victoria University of Wellington who was advocating that New Zealand should consider such a tax.

She said that, in her view, it was time New Zealand seriously considered a wealth tax. She continued that it was time to discuss "wealth taxes" - a term broadly used here to capture the bucket of potential taxes on wealth, including capital gains, inheritance, gift, land or other types of tax on assets. She added that, as recently as 3 May, Prime Minister Jacinda Ardern said her government didn't have any current plans to introduce a wealth tax, but was also refusing to rule one out. Either way, the professor stated, it's an issue that is unlikely to go away any time soon.

The professor continued that, to put it in context, there are three primary means of taxation, or three "limbs", to use a frequently used tax term. The first is income - taxes on earnings such as wages, salaries or company earnings. The second is taxing consumption - taxes on purchases of goods and services. Finally, there are taxes on wealth - taxes on what you own, usually assets.

In Aotearoa (the current Māori-language name for New Zealand), she said, we have comprehensive regimes for the first two of these. Income tax is mostly paid by individuals and companies. In 2020-21, individuals paid income tax of NZ$45 billion or 46.4% of total taxation revenue. Companies paid $15.8 billion or 16.2% of total taxation revenue in the same period. While not without its issues, it is better than many income tax systems.

She said our goods and services tax (GST) is a broad-based consumption tax. This does what it says: it taxes goods and services. Globally, our GST is often referred to as a model system due to its broad base and few exemptions. GST collected in 2020-21 was $25.6 billion (net), or 26.3% of total tax revenue. Other consumption taxes include fuel, tobacco, and alcohol excise and duty. These are also all paid by the final consumer and totalled $5 billion in 2020-21 (5.2% of total tax revenue). The primary issue with GST and excise taxes is that they fall more heavily on lower income earners as a proportion of earnings.

She then went on to refer to what she described as "the missing limb". She asked, "Where is limb three?" and answered her own question by stating this is largely absent in Aotearoa, although we do tax assets in a small number of specific situations, such as the "bright-line" test for residential housing.

But, she maintained, the default is that we don't tax wealth, and unless a transaction is explicitly included in the legislation, it will not attract tax. Why is this a problem?

First, he said, as the OECD puts it, wealth accumulation "operates in a self-reinforcing way and is likely to increase in the absence of taxation". The OECD also argues "there is a strong case for addressing wealth inequality through the tax system". This is because higher income earners have greater capacity to save, which facilitates investment creation and further wealth accumulation. Additionally, wealth inequality is greater than income inequality. But income is comprehensively taxed while wealth is not.

The article stated that the discussion inevitably comes back to fairness. We're all familiar with the stories of the untaxed passive gains made by property owners, while those earning wages or salaries pay tax on every dollar earned. She said we can't blame "the wealthy" for this outcome. They are only following the rules as outlined in tax legislation, as they are required to by law.

We can, however, blame governments - and not just the current one, despite its parliamentary majority offering an opportunity for action that recent past governments haven't had. The issue is that none appear willing to tackle the political unpalatability of introducing a wealth tax. And in the absence of a government willing to take a leadership role, she said that the wealthy continue to benefit at the expense of those who have less.

It is important to note, she said, that wealth taxes are not typically directed at an individual's personal home. They are intended to tax wealth in the traditional meaning of the word - for example, people who own multiple houses or are "land banking". Importantly, taxes are flexible instruments, they can have exclusions where appropriate, such as for Māori land.

She continued Revenue Minister David Parker's recent proposals indicate some positive steps forward. Capturing more accurate information about high wealth individuals has the potential to provide the mandate for change. As Parker said, current data used for policy purposes "effectively ignores the wealthiest". He cited evidence that the maximum net worth collected in the current survey data used for policy purposes was $20 million, which is "out by a factor of hundreds".

The question is, what will the government do when that information is available? Collecting information is just the first step to inform debate in a democratic society. The issue is how much inequality our democracy is willing to tolerate.

Better quality data on who wins and who loses from a wealth tax will contribute to better quality debate. Whether we want a wealth tax, however, can only be determined at the ballot box. She argued that this should be put to the vote.

From IPTI's perspective, we do not, of course, advocate for or against a wealth tax. However, we follow with interest any debate on the issue and will, if requested, provide policy advice on the pros and cons of such a tax. Property taxes are clearly a form of annual wealth tax, but they do not purport to tax any additional assets or sources of wealth. As far as I am aware, the latest annual budget published by the government of New Zealand in May did not include such a tax among its proposals.

Moving on to IPTI activities, we have just been awarded a contract to undertake an audit of a property tax revaluation being carried out in a large city. This is the type of work that IPTI has undertaken many times before, including in this particular jurisdiction, and we are looking forward to starting work on the project.

We are also currently involved in what is known as an Assessor Candidate Training (ACT) Program being run by the Property Valuation Services Corporation (PVSC) in Nova Scotia, Canada. ACT is a leading-edge learning and development program that provides new assessors with the information, training, and support required to perform the duties of an assessor competently and instills PVSC's expected attitudes and behaviors within in the first year of their employment. Variations of the ACT Program provide new non-assessment staff with an introduction to mass appraisal and PVSC's business. Additionally, content from the ACT program can be used as a training aid for current staff. A structured "practicum" component for the ACT program follows the educational modules provided in the first phase and is required to be completed by candidates before they transition to their assigned work teams. IPTI is very pleased to be working with PVSC in delivering this important program.

During May we held one of our first in-person events since the global pandemic forced us to move all our events online. Held in Chicago, this meeting was for representatives of large corporate entities and was titled "Managing Property Tax Portfolios in a Post-COVID-19 World". As we all know, the COVID pandemic has created additional challenges for corporate property tax managers overseeing an already complicated process. Complexities such as dealing with multiple sources of information and limited access to data, the lack of standardization and consistency, and effectively communicating with other business units within the organization have all been further complicated by the pandemic. As the property tax burden is shifting due to COVID-19's impact on the various property classes, additional challenges are created by a lack of understanding of the tax assessment cycles in local jurisdictions and how local assessors deploy appraisal methods. Further challenges include the inability to easily analyze property assessments based on market research to determine if they are fairly assessed and to provide concise and clear reporting in sufficient detail to allowed informed decisions. This one-day workshop included experience sharing and interactive discussions dealing with many of the above challenges. We are very grateful to all workshop participants for their helpful and informed contributions on the key topics discussed.

Towards the end of May we delivered another in the series of webinars we organise jointly with the Institute of Municipal Assessors (IMA). This IMA-IPTI webinar was on the topic of "Statistical Quality Measures Explained". As most readers will understand, in mass appraisal, the quality and accuracy of assessed values in relation to the reality of the market as expressed by arm's length sales requires close attention. Appraisal level and appraisal uniformity are two test that are relied upon by assessment jurisdictions to measure the effectiveness of their results. This webinar took a closer look at assessment to sale ratios, measures of central tendencies and graphic analysis assessors and modelers use to better understand and measure the accuracy of predicted values. The webinar also looked at appraisal uniformity testing within grouping and between groupings, horizontal and vertical equity, how to read various statistical measures and other measures and tools to help in the overall ratio review. Our two very experienced and able presenters covered the ground in a very professional manner, as usual, which I am sure all participants appreciated.

I should add that, on a personal note, I was pleased to participate in two events held in the UK that are worthy of note. The first was a dinner to celebrate the centenary of an organisation known as the "Rating Diploma Holders Section" (RDHS) of the Royal Institution of Chartered Surveyors (RICS). The RDHS, of which I am a member, is a group of professional surveyors who specialise in the valuation of properties for the purposes of non-domestic rates - the annual property tax which relates to non-residential properties in the UK. The Centenary Dinner was an excellent opportunity to meet up with colleagues, many of whom had not seen each other in person since "lockdown" was imposed in March 2020.

The other very pleasant networking event to which I was invited was the President's Lunch hosted by the Institute of Revenues, Rating and Valuation (IRRV). This event is an informal gathering of the Presidents of various organisations (including IPTI) with which the IRRV interacts. I should add that David Magor, the current Chief Executive of the IRRV, has recently announced his retirement with effect from the end of June. David, who is a member of IPTI's Board of Advisors, is very well known throughout the world as an expert on property tax and related matters, and he will be much missed. However, I understand that David will be continuing to carry out consultancy and advisory work post his retirement, so I am sure we will continue to welcome his contribution to IPTI and other organisations over the years ahead.

Looking ahead, we are very excited about our forthcoming Mass Appraisal Valuation Symposium (MAVS), a virtual event, which will be taking place on 22-23 June. This will be a joint IPTI-IAAO event and the MAVS agenda is available on our website.

We also have another IMA/IPTI webinar arranged for later in June dealing with "Development and Application of Time Adjustments". As readers will be aware, time adjustments are an important part of the assessors' toolbox. An accurately calculated time curve enables older sales to be brought into the analysis and also serve as a measure of quality after the proposed values are generated. This webinar will describe the various methods of predicting time adjustments and their applications.

I am pleased to confirm that details of our next in-person IPTI event in Canada during September are now available on our website. This will be another in our series of "Ontario Property Tax Summits" and will be held on 8 September in Toronto. We will also be using this occasion to celebrate 25 years since IPTI was formed by my good friend and IPTI CEO, Jerry Grad.

Later in the year we will be holding a number of additional IMA-IPTI webinars covering a wide range of topical professional issues and our (in-person) Caribbean conference which is being delivered, in partnership with the RICS, in Montego Bay, Jamaica on 13-14 October.

And, to round off the year, we will be facilitating the next "Conference of Valuation Agencies" (CoVA 2022) which, if all goes according to plan, will be held, in-person, on 8-9 December at an Oxford college in the UK. This should be an important, and very enjoyable, opportunity to reinforce the CoVA network.

As usual, for full details of all 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.

Starting with Vietnam, it is reported that the government will study the imposition of a tax on homeowners and increase taxes on land to prevent speculation and increase land-use efficiency, as part of a comprehensive tax reform strategy for 2030 which was approved recently. This tax was also mentioned in the Finance Strategy to 2030, approved back in March. The proposal concerning the imposition of an asset tax on second homes emerged recently over worries that real estate speculation is causing the market to overheat. In response to this, the Ministry of Finance denied rumours that it was developing a draft law on property assets, as experts said that it was not the right time as it might hurt the property market and the COVID-19-hit economy. Under the tax reform strategy, tax on agricultural land would continue to be exempt until 2025 to promote agricultural and rural development. For the tax on non-agricultural land, an increase would be put into consideration. Taxes on homes would also be studied to promote efficiency in using lands and houses, prevent speculation and ensure reasonable revenue to the budget. The possible tax reforms also include changes to provide incentives in corporate income tax for small and micro-sized enterprises, in particular to attract foreign investment with a focus on quality rather than quantity; a review of personal income tax for amendments of tax rates to ensure appropriateness to taxable income and accordance with the nature of each type of income; and a roadmap for increases in value-added tax would also be studied. The tax policies on natural resources and environmental protection would also be reviewed under the reform strategy.

Moving on to Canada, in British Columbia a longstanding trend of shifting more of the share of the City of Vancouver's property tax from businesses to residents will come to a halt in 2022. Vancouver City Council recently approved the measure which will now decrease the residential share slightly to 57% and increase the non-residential share nominally to 43%. According to the city, the 0.1% shift from residential to non-residential between 2021 and 2022 is the result of "new construction, class transfers, and other non-market changes." Between 1994 and 2011, the business tax share was lowered from 60% to 48%, while the residential tax share over the same period was increased from 40% to 52%. The previous trend of shifting more of the property tax burden from residential to non-residential has been a decades-long process to address Vancouver's once hostile property tax environment for businesses. "It is important to note that the business tax rate ratio is impacted by market forces that are beyond Council's control. Assuming no Council-directed tax shift, if the value of residential property appreciates faster than commercial property, the tax rate ratio will naturally increase even though the business tax share remains the same," states a City staff report. "Conversely, if the value of commercial property appreciates faster than residential property, the tax rate ratio will naturally decrease. As such, relying on just the tax rate ratio to gauge tax equity among property classes without considering other complementary metrics could be misleading." The City states that, as a result of the reductions over the past decade, Vancouver's business tax rate is now the lowest amongst comparable Metro Vancouver municipalities, and the increase in business taxes per capita is in line with comparable jurisdictions. But the years-long reset towards a more balanced property tax share regime for businesses is increasingly being neutralized by factors such as skyrocketing property values. Even before the pandemic, a spate of Vancouver's small business closures - retail and restaurants - were associated with soaring property values pushing up property taxes, which are passed from landlords to commercial tenants, specifically via triple-net leases. Property taxes escalated in areas that saw new community plans or major rezonings, which add a non-existent tax burden on businesses based on the developable air space above their buildings.

Although it will come as no great surprise to many, property taxes remain somewhat controversial politically which, as a result, means they may be subject to abrupt policy changes. An interesting example of this can be found in the recent experience of Nova Scotia, Canada, where the provincial government recently proposed the introduction of a new property tax to be levied on residential properties owned by non-residents. The tax of $2 per $100 of assessed value for non-residents was announced in the spring budget, along with a five percent deed transfer tax for non-residents who purchase a property. The province said the revenue from the new taxes would be used to help address the housing crisis, but the property tax measure faced a substantial backlash from seasonal residents who own cottages or other residential properties in Nova Scotia. Responding to criticism of the new tax, the government initially tried to "soften" the new measure by making it a tiered system with exemptions for properties assessed at under $150,000; a tax rate of 0.5 percent for properties assessed at between $150,000 and $250,000; and a tax rate of 2 percent only for properties assessed at over $250,000. However, complaints about the tax continued and, shortly after announcing the new tax and subsequent modifications to it, within days the government finally bowed to pressure and decided not to introduce it! It should be noted that the removal of the property tax doesn't mean the loss of all new anti-speculation policies; the non-resident deed transfer tax, which was also introduced in the spring budget, will continue as planned and requires non-resident homebuyers to pay a 5% tax on the purchase of a Nova Scotia residential property.

Back briefly to where we started - wealth tax - another interesting article from an associate professor of history at Illinois State University maintains that Abraham Lincoln supported a wealth tax. The author states that, in President Abraham Lincoln's generation, wealth taxes were the principal way to forestall the return of aristocracy. In other words, wealth taxes were the very fulfillment of the American Revolution. He continues that, issues surrounding taxation were central to the grass-roots revolt that precipitated the American Revolution. During the Stamp Act crisis, for instance, artisan and working-class revolutionaries targeted the trappings of wealth, such as chariots and fancy houses. These working people resented the British-imposed aristocracy that used regressive taxation to lord their wealth and status over the working people of America. While the revolutionaries sometimes sought to contain the egalitarian tendencies of the revolution they sought to forestall the return of aristocracy by making taxes progressive.

And finally, some might suggest that property taxes should not be used for purposes unrelated to what might be described as "traditional" property tax purposes, e.g., the provision of local services, etc. However, in the UK, the government is using the property system for residential properties, known as council tax, for completely unrelated purposes. In response to the "cost of living crisis", the government is providing £150 (a "council tax energy rebate") to every household occupying properties in council tax bands A to D (the lowest of the eight capital value bands). This, the government states, will provide support for lower income households to assist in meeting the additional costs of energy, etc., currently being experienced by so many families. Further financial support for households will be provided later in the year. It should be noted that there were some cases reported where, instead of £150 being paid into a person's bank account, £150 was inadvertently withdrawn! Leaving that issue aside, it is perhaps unfortunate that the UK government has not taken the opportunity to commission the revaluation of residential properties for council tax purposes as the current valuations are now over 30 years out of date!

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