PRESIDENT'S MESSAGE

July 2023

As regular readers will be aware, I normally start this newsletter with reference to a significant recent report or academic treatise on property tax matters which I think you will find of interest. However, this month I am using a "human interest" story I read which I think tells us something about the fairness - or lack of it - in some property tax systems. The title of the news article was simply: "Should you get a property tax break if your house burns down?"

The article stated: Anthony Szamboti received a frightening call a year ago. His Blackwood house was on fire. It was March 8, 2022, and Szamboti was at work 11 miles away. He raced home. In the distance, he saw smoke billowing into the sky and a news helicopter overhead. He knew it was his house, he said.

When emergency personnel allowed him close, Szamboti found his wife Debbilyn safe, wrapped in a blanket and sitting on a lawn chair a few houses away from where the fire department was at work. "She was slightly burned in the middle of her forehead and the bridge of her nose, and her face was blackened," he said. "I kissed her on the head." She was checked out at the hospital and released - safe - but the home was uninhabitable. The cause of the fire was never determined, but Szamboti believes it had something to do with their solar panels.

It was the start of a long and frustrating journey that's led Szamboti, 66, to believe property tax laws in the state are unfair to homeowners whose properties are destroyed by fire or other disasters. After the fire, property taxes weren't top of mind, Szamboti said.

Outside of some tools, very little was salvageable from the home. A single neighbor with a four-bedroom house put them up as they negotiated with their homeowner's insurance. They received $128,000 for the home's contents and, after paying off their mortgage, $330,000 for the structure. But rebuilding estimates ranged from $400,000 to $466,000, he said, so they debated moving instead.

Before the August 1 property tax payment was due on the Blackwood property, Szamboti called the local tax office to ask if he could be taxed only on the land because the "improvements" - the house - had been destroyed. The home was 73% of the tax bill, he said, so that would lower their costs from $10,000 to $2,500.

"The assessor was sympathetic and said he would go out and take photos of the house but couldn't take it down to just the land until January 1, 2023," he said. "I was flabbergasted as it meant we would have to pay the full property tax on a house that was completely destroyed and of no use while we were forced to go out looking for, and paying for, permanent shelter."

With this added financial pressure, the couple said they decided to sell the property "as is" to a builder for just $10,000 on August 17 and they bought a small cape in Bellmawr, about three miles away.

But the property tax issue was eating at him, Szamboti said. He learned that towns regularly reassess property taxes for improvements. He figured it should work the same way with a downward reassessment for damaged homes. Szamboti asked about it at a November 2022 town council meeting, and he eventually got a call from the tax assessor, he said.

"He said if I could have called before March 31, 2022 - the cut-off date for tax appeals - he could have used that mechanism for reducing the taxes, but otherwise we had to pay the full amount," Szamboti said. He argued that most people wouldn't know that cutoff date, and with all his possessions ruined, at the time, he had other things on his mind.

The assessor shared a section of the New Jersey tax assessor's handbook titled "Material Depreciation of Structure Between October 1 and January 1." It said that when property is destroyed by fire or natural disasters "so that its value is materially depreciated after October 1 and before January 1 of the following year and the assessor is notified before January 10, the assessor must value the property as it stands on January 1." However, it says, if property is destroyed subsequent to January 1 or if the assessor is not notified before January 10, "property must be valued as it existed on pretax year October 1, the statutory assessment date."

That's right. You can be billed for improvements pretty much right away, but depending on the timing of your home's destruction, you can't save money on taxes for months, or longer, after it's wrecked. "This is essentially treating the situation as though it did not happen until the next yearly assessment cycle," Szamboti said. "This is outrageous and this New Jersey law really needs to be changed, as it is taxing something that has no value and puts an unjust and unnecessary burden on individuals who are already in a stressful and burdensome situation."

When letters to his local lawmakers went unanswered, he asked the local newspaper to help. They explained that, in New Jersey, the amount of real estate taxes you pay is based on the value of your property, which is then multiplied by the tax rate to determine the total assessment, said Michael Mirne, an attorney in Ocean who deals with property tax matters.

He said tax rates change annually, but in most New Jersey towns, the assessor's determination of the value - called the "assessment" - is not updated very often. Therefore, he said, your assessment may be based on a valuation from several years ago. He said this isn't a problem in most cases because everyone in the town is valued over the same time frame. But if someone improves their home, there would be an inequity, he said. To make it fair, the owner with the improvement will get an added assessment and their tax bill would go up.

“These added assessments are generally entered on the first day of the next month following the date when the construction was deemed to be substantially complete,” Mirne said. For example, if a homeowner builds an addition on November 3, 2023, they might receive an added assessment for December 2023 and 12 months of 2024.

“While the practice of entering added assessments seems fair and reasonable, the trouble is that there was no fair and reasonable practice for dealing with a situation in which the property actually lost value,” he said. So, in 1945, a law was enacted to allow for assessment reductions when properties had substantial destruction after October 1 but before January 1, Mirne said. “The statute specifically enumerates fire, storm, cyclone, and tornado as examples of casualties that would be covered,” he said, noting that Superstorm Sandy victims received a special exemption.

But what about property owners whose homes were destroyed between January 1 and September 30? “Unfortunately, under the present law, those property owners are out of luck,” he said. “For example, if the homeowner’s house burned down on January 4, 2024, the homeowner would still be responsible for paying taxes on the value of the house, as it existed as of October 1, 2023.”

“The taxpayer in this instance does not get a “discount” just because her property is suddenly worth less than it was as of the October 1, 2023 date of valuation,” he said. “On the contrary, the taxpayer would be responsible for paying taxes for the full value, for the entire year of 2024.” That’s essentially what happened to Szamboti.

Other states, including Pennsylvania and California, don’t make homeowners whose properties are destroyed by fire or other natural disasters wait for relief. Why does New Jersey? We asked the lawmakers Szamboti contacted. Asm. Paul Moriarty, D-Gloucester and chair of the Consumer Affairs committee, said his staff was researching the issue.

“If your house burns to the ground and you’re a victim, why should your hometown victimize you a second time?” he said. “For someone who has a loss and their property is no longer of the value it’s assessed at, there should be a mechanism where they don’t have to pay taxes on the full value for something that’s been destroyed.”

Moriarty also said there should be a transparent appeals process “that provides for reimbursement of taxes that shouldn’t have needed to be paid.” The office of Sen. Fred Madden, D-Gloucester, said he is also on board and looking at possible legislation. While Szamboti said he doesn’t expect any law change would help him, he’s concerned for other homeowners.

“I feel as though the tax money we were forced to pay on the destroyed improvement, after the fire, was stolen from us and the fact that it wasn’t reduced put pressure on us to sell the damaged property a little too fast,” he said. “A reduction was certainly justified and had we got it, we would have had the time to solicit offers and at least felt we got what fair worth was left in the property.”

It is unconscionable for New Jersey law to require a mid-year reassessment and tax increase for an addition but to refuse to do so for a loss, especially a catastrophic loss, which displaces the occupants and puts them under pressure and in a survival mode," he said.

IPTI comment: as we all know, fairness is the cornerstone of any effective property tax system and not reducing the assessed value of a property when the improvements on it have been destroyed - by whatever cause - seems unfair. Let's hope that the system in New Jersey can be changed to reflect what most people would consider to be fair!

Moving on to IPTI activities, towards the end of June we held our annual two-day Mass Appraisal Valuation Symposium (MAVS). This online event, delivered in partnership with the International Association of Assessing Officers (IAAO), attracted some 270 participants from 14 countries around the world. The MAVS included 32 international speakers who made presentations on a wide variety of topics of interest to all involved in the world of mass appraisal. In addition to the presenters, we had 8 moderators who contributed to the event and ensured we had some lively discussions with their panel of speakers at the end of each main session dealing with questions from delegates. Whilst there are many advantages from holding in-person events, it was interesting how many delegates told us they were very grateful to be able to participate in this online event as they were unable to travel to events outside their own country.

At the beginning of June, IPTI participated in an in-person meeting organised by the European American Chamber of Commerce (EACC) in New York. The meeting was titled "European and U.S. Commercial Real Estate Market Update 2023 - Understanding the New Normal". The speakers discussed the current investment and debt environment, CRE trends, new developments, and sustainability considerations. They also considered the collapse of local banks with major RE portfolios, combined with the new hybrid working environment, as well as ESG requirements for developers, owners and tenants, all of which pose new challenges to market participants. IPTI provides a monthly update for the EACC which helps to keep its members informed about interesting developments in property tax systems in Europe and the USA.

Also during June, we held another in our series of webinars delivered in conjunction with the Institute of Municipal Assessors (IMA). This one was titled "Challenges with Sales Analysis" and our two experts considered some of the issues associated with valuing properties in difficult economic times when sale volumes are low. They looked at how assessors and appraisers may be required to look at more non-typical sale transactions and transactions that may require significant adjustments before being considered in any analysis. They looked at different types of transactions and considered the key factors which help to understand the sale and the important questions that need to be asked to better understand the conditions influencing the sale. Having mentioned the IMA, I should add that IPTI was involved in their two-day annual conference held in Kingston, Ontario towards the end of June.

Another IPTI event held during June was a workshop on income modelling. This online event involved two experts providing hands-on model-building guidance for attendees by going through an income model-building process from start to finish. The workshop included building a fair market rent model and a gross income multiplier (GIM) model. The workshop also covered the application of statistical analysis including ratio studies and model performance reviews.

Looking ahead, as usual, we have a full programme of events extending to the end of the year full details of which can be found 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/

In Taiwan, nearly 67 percent of respondents in a poll said that they are willing to pay higher taxes if it means discouraging house hoarding in the nation. Also, nearly 80 percent of people supported levying a tax on vacant homes to increase the housing supply in Taiwan. Survey results showed that 77.5 percent of the respondents said a vacant home tax should be levied to increase housing supply, while 43.5 percent said that those who have at least two homes should pay a vacant home tax. Nearly 63 percent said people should be asked to pay housing tax and land value tax based on actual selling prices, the survey showed. It is reported that one in six houses in Taiwan is vacant. "Because the tax burden of owning a house is lower than that of owning a vehicle, it is difficult to deter house hoarding" a government spokesperson said. She went on to say, "We propose levying a vacant home tax to increase the costs that house hoarders have to bear. This would force owners of multiple houses to rent out their homes, which would increase the number of rental homes, and balance supply and demand in the market," she said. "The starting rate of a vacant home tax should be 10 percent per house. A progressive tax rate should be adopted for each apartment a person owns and the longer they keep it," she said. She continued, "The bill we will propose during the next legislative session will make vacant home tax a national tax, rather than one levied by local governments". If passed, the policy would affect about 500,000 homeowners nationwide, she said, adding that it could help "restore order" in the housing market.

And on the topic of taxing vacant homes, in Ireland a Vacant Homes Tax (VHT) was introduced in Budget 2022 as one of the measures taken by the Government to increase housing supply. The new tax will be levied at a rate three times the basic rate for local property tax (LPT) (that is the rate of LPT before the local authority adjustment is applied) applicable to the relevant residential property. The tax will apply to residential properties that are occupied for less than 30 days in a 12-month period. The due date for filing the initial VHT return is 7 November 2023 with the first payment of the tax due on 1 January 2024. The first chargeable period will be from 1 November 2022 to 31 October 2023. The liable person for LPT for a particular property will be the person who will be chargeable for VHT for that property. A property will only be liable for VHT if it is liable for LPT, thus if the property qualifies for any of the exemptions from LPT, it will not be liable for VHT. Owners will have to determine if their residential property was vacant for any period during the chargeable period. There are several steps that owners can follow to determine whether their property is deemed "vacant" under the new legislation: Was the property liable for LPT for the relevant period? If so, was the property "in use as a dwelling" for less than 30 days in the relevant period? If the property was liable for LPT and was not "in use as a dwelling" for more than 30 days, is the property eligible for an exemption from VHT? If the property was liable for LPT and not "in use as a dwelling" for the relevant period, a VHT return must be submitted, and payment arrangements confirmed to Revenue. If an owner determines that a property is subject to VHT, owners will be required to submit a VHT return on the VHT online service on a self-assessment basis. Further information in relation to the online service will be released by Revenue in the coming months.

In Connecticut, USA, a local mayor has proposed a significant reduction to the city's property tax rate which should provide some relief to commercial property holders. But homeowners will pay more in taxes due to higher recent increases in home values, spurred by the state's hot housing market. The mayor said he had heard many concerns from businesses and residents during his town's state-mandated property tax revaluation in 2021. Residential properties increased in value far more than commercial and industrial buildings. As a result, the town's tax levy shifted proportionately away from commercial and industrial owners to residential property holders. It meant owners of a house valued at $198,000 would see a $416 increase in taxes during fiscal 2023. Conversely, a local commercial property operator saw its property tax bill drop $104,000 this year. Municipalities are required by state law to perform property revaluations at least once every five years, and do so on a staggered schedule. Across Connecticut, 37 municipalities performed tax revaluations in 2021, and another 39 in 2022. Many, if not all, saw residential values increase far more than commercial and industrial properties, due to the state's red-hot residential housing market in recent years and the pandemic's negative impacts on office and other commercial buildings. As already indicated, that's forcing residential homeowners, in many cases, to shoulder a greater tax burden. It's also providing some relief to businesses, which have long complained about Connecticut's high property taxes which are the primary revenue source for municipal budgets. Property taxes make up 43.2% of the total tax burden for Connecticut residents, according to a December 2022 report published by the Property Tax Working Group, which has been pushing for property tax reforms. As usual, the situation has put pressure on local municipal leaders stuck between two constituent groups. On one hand, lower commercial property taxes could stimulate economic development opportunities. On the other, upset homeowners have more power at the ballot box!

In the UK, the amount of unpaid council tax (residential property tax) has reached a "new historic high" of £5.5bn according to official figures released by the government. Council tax arrears grew by over half a billion pounds (£510m) in the year to March 2023 and have more than doubled in the last decade. It is reported that vulnerable families, who are most at risk from high inflation and mortgage rates, are struggling to pay their bills. Since April 2021, at least 3.3 million liability orders have been granted which give councils wide-ranging powers to recover a debt including the ability to send in bailiffs, deduct money directly from wages or benefits, force the sale of a home, or even have a debtor sent to prison.

And finally, as if normal property tax bills weren't scary enough, for people in part of New Zealand, they were super scary. Ratepayers (property taxpayers) were mistakenly told they were facing extraordinary rates hikes of up to 70 per cent and beyond after a blunder by the local council. What were described as "heart-stopping increases" came after the council's automated "ratings calculator" spat out incorrect assessments of the rates homeowners would be paying next year. Homeowners in the district who checked the council's site - at its urging - were told their rates would go up by thousands of dollars. The council sent out a press release directing people to its Rating Information Database after updating it with new property valuation information received a day earlier. After discovering the error, the council issued a statement saying, "We sincerely apologise to all our customers for the anxiety this has caused in already difficult times." It seems that the mistake was down to a faulty algorithm; so much for modern technology!

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