



PRESIDENT'S MESSAGE

October 2023

I am starting this month's newsletter with extracts from an interesting article titled "Taxing land wealth for the public good: provincial policy options". Written by Alex Hemingway, a Senior Economist and Public Finance Policy Analyst from the Canadian Centre for Policy Alternatives (CCPA), it looks at the position regarding property taxes in British Columbia.

The author states: Property wealth has become a massive source of inequality in BC as home prices and rents have risen dramatically amid a severe housing crisis and shortage. A consequence of high prices has been an explosion of residential real estate wealth now totaling over \$2.1 trillion in the province, a stock of wealth that remains only lightly taxed.

In less than two decades, just the increase in residential property wealth has amounted to a staggering \$1.7 trillion. Even the most equally distributed segment of property wealth - owner-occupied principal residences - is highly concentrated. As of 2019, the top two fifths of British Columbians (by net worth) held almost 80% of principal residence asset values.

While the BC government has taken some worthwhile steps towards taxing the most-expensive properties, these have only scratched the surface of the enormous property wealth gains in BC.

In this report, he examines provincial property tax policy options with three main aims:

- to tackle extreme inequality in property wealth;
- to raise provincial revenue for investment in public services and infrastructure including housing;
- and, to design tax policies that can also help directly lower housing prices and make real estate a less lucrative target for passive, non-productive investment.

The policy options examined here inevitably involve technical or political trade-offs, or both. There is no perfect property tax reform, but a range of options are worthy of consideration individually or in combination. Five key policy options examined in this report include:

1. Doubling the existing provincial property tax rates on residential property value above \$3 million (to 0.4%) and \$4 million (to 0.8%), as well as adding a new bracket above \$7 million (1.5%).

2. Using the above brackets and rates, restructuring these progressive taxes to apply to the total property holdings of a given owner, rather than applying on a per-property basis.
3. Applying progressive property tax brackets at a lower threshold (\$1.5 million) to cover a greater portion of residential property wealth in BC (in this case including about 11.7% of households).
4. Ending the automatic cuts to base property tax rates that occur as property values rise.
5. Shifting property taxes towards a tax on land value specifically (as opposed to the value of productive investments in the buildings or improvements on a property).

He continues: The vast majority of BC's residential property wealth is in the value of the land (\$1.5 trillion) rather than in the buildings on it. Unlike the value created by constructing or improving a building, increases in land values are not the result of any effort or expense by property owners. Rather, the land value is a social creation in that it reflects what makes the use of a particular location attractive to people.

Land values are generated by everyone participating in the life of a city or community, creating the culture, social connections, goods and services that make a place desirable to live (and shaped by the geographic features of a place). They are also created by direct public investments in infrastructure and services like streets, sewers, water, electricity, public transit, schools, parks, libraries and community centres. Yet, socially and collectively, created land value gains flow into concentrated private hands.

One important way that land value can be shared more broadly is through public or community ownership of land. Given that much of BC is on unceded land stolen from Indigenous peoples, it's notable that the Squamish Nation is showing the potential of this approach with lands it controls. The Nation's Seánkw housing development will add 6,000 new homes to its reserve lands in Vancouver, creating a major revenue stream of rental income for the Nation while providing homes to help ease the wider housing shortage. A similar approach is being taken jointly by three First Nations that own the Jericho lands.

Our focus here, though, is another way to ensure that privatized land value gains are more broadly shared: tax them. Property and land taxes can generate significant revenues to invest in the public good. In regions where property value gains have been most concentrated in BC, property tax rates are low and have declined sharply over the past two decades. Unfortunately, the existing annual property tax system is designed in a way that ensures that only an ever-shrinking share of property value will be taxed.

As things stand, property taxes work very differently from other taxes. Rather than locking in a tax rate (or set of rates) as we do with income or sales tax, property tax rates change annually. At the municipal level, a city, town or village determines its budget for the year and then sets property tax rates at a level that will raise this amount of money. When property values rise, the property tax rate (or "mill rate") decreases to ensure revenues don't exceed the planned spending. The municipal portion of the property tax rate in Vancouver has fallen by half from 0.30% of assessed value in 2000 to 0.16% in 2023, and the city's overall property tax rate fell from 0.63% to 0.28% over the same period.

Property taxes include municipal, provincial and regional portions. For example, in Vancouver the overall property tax rate is now 0.28%, with the 0.16% municipal levy and 0.08% provincial levy (known as the School Tax) being the largest portions and the remainder going to Translink, Metro Vancouver, BC

Assessment and the Municipal Finance Authority. The focus of this report is on provincial property tax policy options, but much of the analysis and logic could be applied to improving municipal tax policy.

When property values rise, the property tax rate decreases to ensure revenues don't exceed planned spending. A long-standing BC policy holds that provincial property tax rates are decreased annually when property values rise to ensure the "average provincial revenue per home only increases by BC's Consumer Price Index rate of inflation." Since rising values have far outpaced inflation, provincial property tax rates have fallen (even faster than municipal ones, at least in Vancouver). Furthermore, effective property tax rates are even lower than the posted rates, at least for the 92% of owner-occupier households in BC that receive the provincial government's Home Owner Grant tax break each year.

Having property tax rates that automatically fall in response to rising property values is standard policy in Canada, but there's no reason it should be in an era of ballooning property wealth. This tax structure effectively locks in land wealth inequality - ignoring hundreds of billions of dollars in land value gains - and ensures the property tax system does little to alleviate it. Annual property taxes are treated exclusively as a means to raise revenues for a limited set of municipal services and as a modest provincial revenue source. As land wealth grows, an ever-shrinking proportion of it is harnessed for the public good even though public infrastructure investments give urban land much of its value.

Low property taxes also make real estate particularly enticing for passive investment. There are few if any other financial products where, as the value increases, the tax rate applied decreases. Combined with the federal exemption of principal residences from capital gains tax, this makes owning housing a highly attractive investment relative to other assets (including for owner-occupiers), which drives up prices.

The author states: The BC government has taken some important but limited steps in recent years when it comes to taxing residential property wealth. Most relevant for our purposes, BC added two new brackets and rates to the provincial portion of annual property taxes (School Tax): 0.2% on value above \$3 million and 0.4% on value above \$4 million. These newer brackets are known as the Additional School Tax. Notably, these tax rates are fixed rather than regularly adjusted downward as with the rates on the main bracket. This was an important step towards establishing a progressive property tax system, for which the CCPA has long made the case.

The province also introduced the Speculation and Vacancy Tax on empty homes and so-called "satellite families", a foreign buyers' tax and a new bracket to the Property Transfer Tax on value above \$3 million.

But these recent property tax reforms are very small relative to the huge increases in land wealth. For example, while \$223 million was raised last year by the new Additional School Tax brackets, that's a drop in the bucket compared to residential property value gains of \$1.7 trillion since 2005.

The article goes on to consider policy options to extend progressive property taxation in BC including increasing top-end progressive property tax rates and adding a new bracket; progressive tax brackets based on total property holdings of wealthy owners; broader-based progressive property taxes brackets; ending the automatic cuts to base provincial property tax rates; and shifting to a land value tax. The article, which is very interesting, can be found via this link: <https://www.policynote.ca/property-tax-reform/>

Moving on to IPTI activities, we have been involved in a number of recent events including conferences, workshops, webinars, etc. One that I was involved in most recently was a webinar on the topic of “Expert Witness Challenges - Preparations, Working with Lawyers and Virtual Hearings”. This webinar was another in our series of online events that we deliver in partnership with the Institute of Municipal Assessors (IMA) based in Canada. My IPTI partner and I went through the role of the expert witness, writing an expert report, and giving evidence in both in-person and virtual hearings. I hope we provided some interesting and informative material for the large audience that was in attendance.

Our next in-person event will be the annual Caribbean Conference that we deliver in partnership with the Royal Institution of Chartered Surveyors (RICS). This conference is being held in Barbados on 9-10 November and is already well-supported by registered delegates. A little further ahead is our “Property Tax Conference - Policy and Practice” which will be held in The Hague on 6-7 December. The cooperating agency for this event is the Netherlands Council for Real Estate Assessment (NCREA) and we have a great line up of speakers from around the world, so please join us if you can.

As usual, details of all our forthcoming events 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/ipti-xtracts>

It seems that China has again deferred plans to introduce a nationwide property tax. Latest news reports indicate that a law that would provide a legal basis for the levy is missing from the latest legislative program of the National People's Congress (NPC). The agenda is a five-year work plan for the standing committee of the NPC, China's top legislative body. It lists 130 laws and amendments that are in the works, including a financial stability law, along with a number of areas the committee will study for future legislation, including the regulation of non-tax fiscal income and government debt. The omission of a property tax law from the program indicates that China is unlikely to start fully levying homeowners any time soon, despite local governments' urgent need to raise tax revenue after their finances were hit by a downturn in the property market and the cost of funding strict COVID controls for almost three years. China's housing market has been in crisis since mid-2021 after the government started a campaign in August 2020 to control and reduce the debts of highly leveraged property developers. As builders started running short of liquidity to finish projects and repay their debts, they started defaulting on bonds and bank loans. Homebuyers' confidence in the market collapsed and home sales slumped. The downturn has scuppered the likelihood a property tax will be implemented nationwide in the next five years, even though many cash-strapped local governments need a new regular source of revenue to bolster their finances. Proposals for such a levy have been around since at least 2013. Sources previously suggested that legislators had already drafted a bill by 2018 and sought feedback from local governments and relevant state departments. The plan to implement the tax gained momentum in 2021, with an official at the Ministry of Finance vowing in April that year to "actively and steadily" promote legislation to lay the groundwork. A five-year pilot was authorized in October that year, but in March 2022, the government announced that the trial wouldn't be expanded to more cities. In 2013, the government vowed to create

a unified property registration system, which was completed four years later. The platform was seen as a foundation for the nationwide collection of the property tax, but that is not yet happening.

In New Zealand, it has been suggested that, as part of plans to resolve its long-running housing crisis, investors should be taxed for keeping homes empty. The property market is New Zealand's largest industry, adding NZ\$41.2 billion a year to gross domestic product. But there is a debate over how to tax houses - particularly those sitting empty despite the ongoing housing crisis. While the bright-line rule means homeowners have to pay income tax on profits from properties sold less than 10 years after purchase, this still only applies to house sales. Around 5% of New Zealand's housing stock - 95,000 dwellings - were considered empty during the 2018 census. According to the Empty Homes report, roughly 10% of the empty homes surveyed were intentionally being kept empty, while 35% were empty because they were holiday homes. A further 8% were kept empty for personal use (often as a second home), 23% were empty for renovations and repairs and about 17% were vacant rentals, sometimes due to non-compliance with the Healthy Homes Standards. The remaining 6% were empty for "other reasons", which often meant they were awaiting sale. In the financial year 2021-22, the central government earned 4.7% of its total tax revenue from property taxes, below the OECD average of 5.7%. But, say reports, New Zealand is fertile ground for an empty house tax, which would directly impact property investors and those who have the means to own multiple properties. New Zealand would not be breaking new ground with an empty house tax. This type of tax already exists in a number of countries. New Zealand has an existing land registry which records essential information regarding all parcels of land, bypassing the need to establish this data or to rely on self-reporting from homeowners. Empty properties in Paris, France, incur an annual surcharge of 160% of the standard property rates. In Vancouver, Canada, vacant homes are taxed at 3% of the property's taxable value and failure to pay can result in fines. In Ireland, the empty house tax is three times the property's existing base local property tax. And in Melbourne and Sydney, house buyers who leave a property unused for six months face an annual charge of at least A\$5,500 (NZ\$5,978). Following the Vancouver model, an empty homes tax on property in Queenstown could generate \$255 million a year. The first option, say reports, is to charge a tax of between 200% and 300% of rates, similar to Ireland. Alternatively, it could introduce a tax of 3-5% of land value, like Vancouver.

Moving on to Denmark, a schedule for updated valuations of homes, which are used by tax authorities to calculate property tax, could be delayed until 2024 for some homes, potentially resulting in higher bills. Some 700,000 houses in Denmark may not see their valuations updated until next year, reports suggest, based on internal documents from the project leadership. Tax authorities have already confirmed that up to 375,000 homes will not be revalued until next year. The valuations are important because new property tax rules, which take effect on 1 January 2024, mean rates are calculated in part based on new valuations of properties in the national database. The new rules are designed to keep property tax stable as new property valuations, on which taxes are calculated, come into effect. In short, homeowners will from 2024 pay property tax based on valuations of their property made from 2022 onwards, an update from older data. For most people, the new valuations will be higher than the older ones, because house prices have generally risen in the intervening years. Houses and apartments in and around major cities have seen their values increase the most. But the new valuations have faced a number of delays and problems including IT issues and inaccurate valuations.

In Australia, reports say that the Victorian Government should urgently explore state-based options to reform stamp duty, including investigating the feasibility of abolishing it and implementing a broad-based land tax in its place. The Legislative Council Economy and Infrastructure Committee tabled the final report of its inquiry into land transfer duty fees in the state's Upper House yesterday. The Committee chair said the inquiry had heard that stamp duty is inefficient, unpredictable and inequitable. "Unfortunately, it also represents a significant percentage of the government's budget, so it's difficult to eliminate without impacting current service delivery. There are alternative models that we'd like to see the government explore further," she said. The committee's report recommends the "Department of Treasury and Finance model and publish the findings of 'switch on sale', 'credit' and 'gradual transition' proposals." The committee made 12 findings and three recommendations, including that the government address the issue of bracket creep, that has increased the cost of stamp duty well beyond what was originally intended. It also recommends Victoria consider taking additional measures to increase housing supply, including strengthening housing targets. The report found that national reform of stamp duty would better address its negative impact on housing affordability, economic mobility, and market efficiency, for more Australians. "Implementing comprehensive and uniform reforms is an opportunity to promote housing accessibility and affordability, stimulate economic growth, and create a fairer and more efficient housing market for all Australians," the report found. "We think there needs to be a national approach and we've recommended Victoria advocate for that to the Federal Government," the Chair said. The inquiry received more than 50 submissions and held five days of hearings.

And finally, who says that size does not matter? Well, it seems that a property tax appeal body says exactly that. In British Columbia, a homeowner's bid to get his 2023 property assessment reduced because of - among other things - a 13-square-foot discrepancy between his home's actual size and that reported by BC Assessment has been rejected by the Property Assessment Appeal Board (PAAB). The PAAB decision describes the property as "a newly constructed lakefront property in Penticton situated on a 0.169-acre, gently sloping, lakefront property with 57.2 feet of lake frontage on Skaha Lake." Its assessed value for the current year is \$3,149,000, up from \$3,029,000 in 2022. The taxpayer claimed the property's assessment was too high for "several reasons" according to the panel chair: "The reasons include that the total square footage should be lower by 13 square feet, the main floor should be 16 square feet larger than the assessor calculation, the second floor should be 29 square feet less than the assessor calculation, the main dwelling has four and not five bedrooms as alleged, the home was built in 2021 and not 2019 and the lot size is one square foot smaller than the assessor calculated". The panel chair added that the taxpayer had presented "no comparable sales or other market evidence" to support his assertion that the allegedly incorrect information used by the assessor had an effect on the property's value. She continued, "In any event, the assessor says that even if the discrepancies are true, they are so small and would have little, if any, impact on value. There is no need to have further discussion on this point. There is no evidence to support the appellant's points. I accept the assessor's position that there is no impact on overall value." The PAAB confirmed the property's 2023 assessment of \$3,149,000, with \$1,568,000 allocated to land value and \$1,581,000 to the structure. There you go - size does not matter!

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