PROPERTY TAX IN THE NEWS – JULY 2024

IPTI's usual monthly newsletter - the "President's Message" - contains, inter alia, some summarised news articles from around the world. This IPTI publication - "Property Tax in the News" - contains some of the more interesting news articles concerning property taxes in North America and Europe which is where many of our members have a particular interest. Links to these and more, similarly summarised, articles - from North America, Europe and around the globe - can be found in "IPTI Xtracts" on our website: www.ipti.org. Please note that these are news articles; they do not necessarily reflect IPTI's views.

USA

USA: Property Tax Burdens Are Rising – As Is Interest In Reining Them In

Vermont Governor Phil Scott's effort to save his constituents from a nearly 14% property tax hike failed last week when both chambers of the Democrat-run state legislature voted to override Scott's veto. Rather than impose a double-digit property tax hike, Governor Scott said Vermonters instead need "property tax relief now."

Calls for property tax relief or measures to limit the growth in property tax burdens, however, are not limited to deep blue states where Democrats have supermajorities in the state legislature. Take North Carolina, a state where Republicans have veto-proof supermajorities in the General Assembly like Democrats do in the Vermont Legislature. The imposition of property tax hikes in cities and towns across North Carolina this spring has prompted new proposals for state legislators to step in and put some limits on the ability of local politicians to raise property tax burdens in North Carolina, a state where lawmakers have worked hard for more than a decade to bring down state tax rates.

Local officials in the city of Raleigh, North Carolina's second most populace city, adopted a new budget on June 10 that grows city spending by more than 11%, which is well in excess of the combined rates of population growth plus inflation. Raleigh officials are funding this increase in spending with a hike in property tax payments.

It's not just local politicians in Raleigh, however, who are raising property taxes this year. As Joe Coletti, a fiscal policy expert who conducts oversight for North Carolina House Republicans, points out, every municipality in Wake County is imposing a property tax hike this year by setting the new property tax rate above the revenue neutral rate.

Local officials in North Carolina aren't just raising property tax burdens this year. As Coletti explains, some local lawmakers are misleading constituents by publishing official explanations of the changes being made to property tax rates that will likely lead many people to incorrectly believe that property tax burdens are going down when they're actually going up.

"Local governments have emphasized the change in rate compared to last year and buried the higher valuation." Coletti explains. "For example, Cary's budget document mentions the revenue neutral rate of 24.4 cents in the 'economic outlook' section. The 'budget details' section, four pages later only mentions the new rate of 32.5 cents with only a passing reference to the increase in valuation and states, 'Cary residents will continue to see one of the lowest property rates in the entire county and region.' The equivalent pre-revaluation rate of 45.95 cents is higher than the current tax rate in Apex, Fuquay-Varina, Holly Springs, Knightdale, Morrisville, and Raleigh. It is able to maintain a lower rate than these other cities because all of them also raised taxes and Cary had a larger increase in assessed values than most of them."

There are a number of actions that North Carolina legislators could take to put some limits on the ability of local officials to raise property tax burdens moving forward. Coletti proposes North Carolina lawmakers adopt a "Truth In Taxation" law similar to those on the books in other states. Such a reform, Coletti explains, would do three things:

First, such a reform would require local governments in North Carolina to prominently advertise the revenue neutral rate that would need to be adopted in order to keep property tax burdens from rising. Right now, Coletti explains, after counties mail out revised property assessments, homeowners must then "go through multiple steps to find their Real Estate ID number and learn the impact of the revenue neutral rate on their county tax bill."

Coletti recommends requiring local governments to advertise the revenue neutral rate from the start and include it with the value reassessment notices that are mailed to every property owner. That approach, Coletti says, "would help homeowners understand how a revenue-neutral rate works and the true tax hike if rates are set higher."

The Truth in Taxation reform offered by Coletti, if implemented in North Carolina, would require local governments to be honest with taxpayers. "A 20-cent tax rate on a $450,000 house means a tax bill that is 50% higher than the same rate on the same house valued at $300,000," Coletti writes. "No local government imposing a 33% tax increase, like Cary proposed, should be allowed to claim it lowered the property tax. If businesses tried this, they would be in court for financial misrepresentation. All discussion of tax changes should make clear the actual tax rate increase, preferably by showing the new tax rate compared to the revenue-neutral rate and an equivalent rate compared to the current rate."

Lastly, Coletti recommends state legislation that requires local governments to "vote on the tax rate in a regularly scheduled meeting prior to the regularly scheduled meeting when they vote on the budget." He points out that voting on taxes and spending separately "would force elected officials to consider the impact of higher taxes on their citizens apart from and prior to considering all the good that new spending will accomplish."

Aside from Coletti's recommendations and the lower "rollback rate" enacted by Texas lawmakers in 2019, North Carolina lawmakers might also look to Colorado for more ideas on how to rein in rising property tax burdens. A constitutional amendment to limit the growth in property tax payments will be put to Colorado voters this November.

Initiative 50, which will appear on Colorado's general election ballot, would require voter approval if local officials wish to retain property tax revenue collections in excess of a 4% annual rate of growth. "This initiative would limit property tax revenue from increasing beyond 4% growth from the total statewide property tax revenue collected in the previous year," notes Ballotpedia's summary of the measure. "Statewide voter approval would be required to retain property tax revenue above the cap."

Michael Fields, president of the Advance Colorado Action and sponsor of Initiative 50, said this ballot measure "won't impact the spike in property taxes next year," but added "it will have a significant impact in future years." For property tax revenue collections in Colorado moving forward, Initiative 50 would create "a 4% cap unless voters vote to go above that cap," Fields says, adding that "it would really let voters decide if they want government to keep more revenue, otherwise they would have to stay at that 4% cap."

While Initiative 50, if approved this November, would install a taxpayer safeguard that does not currently exist, it would still permit some profligacy at the local level. Given Initiative 50's property tax cap applies to property tax collections on a statewide basis, local officials in cities and towns will still be able to increase property tax collections in excess of the 4% so long as other localities practice more restraint such that property tax collections statewide stay below the cap.

Whichever approach North Carolina lawmakers decide to take to protect their constituents from large property tax increases moving forward, a recent WRAL newscast demonstrated the need for more truth in advertising when it comes to property taxes. During a June 4 newscast reporting on the increase in spending in the new Wake County budget, for example, a WRAL reporter said that Wake County's new budget "included a decrease in the tax rate" for property taxes. What was not mentioned is that average property tax payments will be going up account of higher property values.

Local officials have contributed to, rather than cleared up confusion as to whether the new county and city budgets raise or reduce property tax burdens. When WRAL asked Wake County Commissioner Shinica Thomas whether the new budget "means homeowners are paying more in taxes," Thomas responded that "some people will pay more and some will pay less actually, depending on what your property is valued at." What Thomas and WRAL did not make clear to viewers is that property tax burdens, on average, will rise for Wake County residents under the new budget.

Wake County residents will have higher property tax payments in the coming year in order to fund a new budget that increases local spending well beyond the rate of population growth and inflation.

Local officials and media outlets, meanwhile, aren't being straightforward with taxpayers about whether their property taxes are going up or down. As such, expect interest in the Truth in Taxation reforms proposed by Coletti to gain traction and possibly be filed as legislation at some point.

USA: Property Tax Anger is Growing Across America

Americans are growing increasingly frustrated at property tax levels, a new poll has shown.

According to a new UChicago Harris/AP-NORC poll, around two thirds of Americans surveyed believe their property tax rate is too high. The poll was conducted in 2023, between December 14 to 18, with 1,024 participants across all 50 states and the District of Columbia.

The survey found 69 percent of adults in the U.S. believe their property tax rates were "unfair", with 27 percent saying they were "about right", and 3 percent claiming they are taxed too little.

Across the country, property taxes, also known as real-estate taxes, are imposed at a local level, with homeowners in each state paying different amounts. Property taxes go back into local communities, helping to pay for infrastructure improvements, public services and schooling. According to retail lender Rocket Mortgage, the highest rates are applied in New Jersey, Illinois and New Hampshire, whereas the lowest taxes are paid in Hawaii, Alabama and Colorado.

While state-by-state breakdowns have not been made available, the poll shows there is widespread discontent over how much homeowners are charged.

Republicans are significantly more likely to say local property taxes are too high, with 77 percent of GOP supporters believing rates are much or a little too high, in comparison to 35 percent of Democrats.

On top of thinking that rates are too high, 36 percent of those polled believe the value of the services received from paying taxes is "poor." A further 39 percent said they think the value of services funded by property taxes are "neither good nor poor," while 23 percent believe they do get good value for money for the amount they are taxed.

Almost half of those polled believe that middle-income earners are bearing the brunt of the tax burden. Just 22 percent think that higher earners pay more property tax, while 48 percent say the middle classes pay the most.

Confidence in local governments to spend taxes responsibly is also big issue for Americans. Only 41 percent of those polled said they have confidence in their state government to "spend tax money in their best interest," with 34 percent being only "somewhat confident." Even less faith is put in the federal government, with only a third (33 percent) believing their tax money is well spent.

Of all the taxes involved in the survey - property, state sales, and federal income taxes - property taxes are viewed as the biggest burden on Americans' wallets. According to the poll, 67 percent think federal income taxes are too high, along with 62 percent saying they thought state sales taxes cost too much.

CANADA

Is a land value tax the solution to Canada's housing crisis?

Canada's housing crisis is a complex issue, but Redfin's chief economist believes there's a clear solution: a land value tax (LVT).

Median home prices in Canadian metropolitan areas have hit $788,000 and skyrocketed to $1.17 million in Toronto, putting homeownership out of reach for many Canadians and straining renters' budgets, according to Daryl Fairweather.

Increasing housing supply is viewed by many as the only long-term solution for affordability. However, Fairweather said focusing solely on renter protections and zoning reforms, while important, won't address the core problem.

Many existing neighbourhoods near downtowns, despite being zoned for denser development, are seeing population decline. Landowners often hold onto these valuable lots, choosing not to develop them further.

"To solve the housing crisis, we must build more housing units where they are needed most," Fairweather said. "It doesn't make sense for a plot of land near transit, job opportunities or education opportunities to be occupied by a single family when it could be occupied by multiple families via the addition of more units."

Redfin's report proposed a land value tax (LVT) as a key component of the solution.

Currently, property taxes incentivize underdevelopment, as undeveloped land carries a lower tax burden than multi-unit buildings. An LVT, by taxing land value instead of total property value, would encourage development of underutilized land.

"A land value tax would fix this problem by encouraging the building of more housing where it is needed most," the report read. "Taxing the appreciating component of a property – the land – rather than its depreciation component – the structure –ensures that investor dollars seek higher productive returns from building homes."

Fairweather explained that an LVT would discourage investors from outbidding families for existing homes or withholding valuable land from the market. It would also incentivize landowners to construct more housing units on high-value, underutilized land or sell to those who will develop it, as the tax would be based on the land value, not the number of structures.

"It might seem callous to suggest that homeowners on underutilized land be financially encouraged to move, but the reality is that one of the main culprits for the housing crisis is a misallocation of land. We need to fix that misallocation to ensure that every Canadian has better and more affordable housing options in their communities."

EUROPE

France: This tax will skyrocket this year for 38 million French people

An annual local tax that is payable by property owners is about to increase. This increase, although inevitable, raises questions and concerns among taxpayers. To better understand the ins and outs of this measure, let's analyze the causes and implications together!

Property tax plays a crucial role in financing municipalities and departments. It allows them to meet essential expenses for the proper functioning of territories. The calculation of this tax is based on the cadastral rental value of the property.

This value, the calculation of which is the responsibility of the tax services, then corresponds to the theoretical annual rent that the property could generate if it were rented out. Taxes take into account several criteria to establish this value, including the surface area of the property.

The surface area increases to the same extent as the cadastral rental value. Furthermore, the geographical location of the property, its accessibility and its immediate environment also influence its rental value.

Also, a property in good condition and meeting current comfort standards will have a higher rental value than another that is dilapidated or dilapidated. The cadastral rental value is indexed to real estate market prices. And recently, these have seen a sharp increase. Which will not be without consequences on property tax!

Bad news for property owners: the Property Tax (TF) will increase by 3,9 % in 2024. This new increase is in addition to the increases already experienced in 2022 and 2023. It then represents one of the most important of the last 40 years.

This increase can be explained by two main factors. On the one hand, there is the annual revaluation of cadastral rental values by the tax services. These values, which serve as the basis for calculating the property tax, are indexed to inflation. However, last year's galloping inflation automatically led to an increase in cadastral rental values.

On the other hand, there is the increase in the TF rate voted by the municipalities. In addition to the national revaluation, municipalities also have the possibility of increasing their property tax rate. If they choose to do so, it will result in another increase for taxpayers on their tax bill.

The owners therefore find themselves faced with a double punishment. In fact, they are subject to both the increase in cadastral rental values and another increase in the municipal TF rate. This situation is putting a strain on the budgets of many households, for whom property tax represents a significant tax burden.

In 2024, the increase in the Property Tax (TF) will affect 38 million French people, i.e. 57% of the population. This increase then represents an additional burden for French households, already weakened by galloping inflation. The final tax amount varies from one municipality to another.

Indeed, if the national revaluation is set at 3,9 %, municipalities have the possibility of a vote for an additional increase of their TF rate. This situation creates significant disparities between territories. This further penalizes taxpayers in municipalities that already have high property tax rates. One thing is certain, this increase risks discouraging potential property buyers!

France: Who is exempt from France's 2024 property tax declaration?

The deadline is fast approaching for property-owners to have completed the property tax declaration - here's a look at who needs to do this, who is exempt and the penalties for missing the deadline.

The deadline to have completed the *déclaration d'occupation*, also known as the *déclaration de biens immobiliers*, this year is June 30th.

If you're declaring online, you have until 11.59pm to have completed the form, if you're declaring on paper you need to ensure that your form reaches the tax office by June 30th (which is a Sunday, so you will need to factor that in if you are returning it by mail).

After a raft of technical problems last year, French tax authorities have promised 'improvement' to this year's declaration and have also made the form available in a paper version for those who either don't have internet access or who aren't confident with online processes.

The declaration must be completed by anyone who owns residential property in France - whether or not they are French residents. This therefore includes foreign second-home owners.

The declaration must be done regardless of what you use the property for - whether it is your main home, a second home or is rented out on a long- or short-term basis.

However, unlike the income tax declaration (*déclaration des revenus*) this is not an annual task - if you filled out the declaration last year and nothing has changed, there is no need to do it again.

The property tax declaration concerns your situation on January 1st, 2024 - if you have bought a property in France since that date there is no need to do the declaration this year, although you will have to do it next year.

Property taxes are also charged based on the situation on January 1st, so if you have sold your property since January 1st, you will receive one last property tax bill (which usually arrive in the autumn).

If the use of your property has changed in the last year – i.e. your second home is now your full-time residence or vice versa - you will need to fill out the declaration again detailing the current situation.

If your property is vacant, you won't pay *taxe d'habitation*, but you may be liable for one of the two 'empty homes tax' charges - *taxe sur les logements vacants* (TLV) and *taxe d'habitation sur les logements vacants* (THLV) - depending on your local authority rules.

Be aware that 'vacant' has a specific meaning in tax terms - it is a property that is both unoccupied and unfurnished. A second home is not unoccupied, even if you haven't visited it for months or even years.

If you have bought a property as a renovation project, you have the option to declare it inhabitable (uninhabitable) which can see your two property taxes reduced or excused altogether for a period of up to two years. This would normally apply in cases of very derelict properties, for example where there is no water or electricity, no functioning bathroom or a roof with holes in it.

The easiest way to do this is to visit your local tax office to find out what rules are in place in your area.

The property tax declaration gives tax authorities the information that they need to set your property tax bills.

Property taxes in France come in two types; *taxe foncière* which is paid by all property owners - bills for this usually arrive in September - and *taxe d'habitation*, bills for which usually arrive in October or November.

Recent changes to the tax system mean that only second-home owners now pay the *taxe d'habitation* - which is why the tax office needs to know what you use the property for.

There is a flat fine of €150 for missing the deadline. However, if you don't provide information to the tax office, they will likely send you a bill anyway, based on an estimate.

These estimates can be much higher than your real bill and challenging them will require some complicated conversations with the tax office.

Germany: More than 300,000 appeals against property tax assessments

With a revenue of around 15 billion euros per year, property tax is one of the most important sources of income for local authorities in Germany. Its reform involves a great deal of effort.

Dresden - Saxony's tax offices have so far received 327,163 appeals against the new property tax assessments. In 18,092 cases, appeals were granted in full or in part, in 3,015 cases they were rejected in full or in part, as the Ministry of Finance announced in its response to a minor question from the AfD parliamentary group in the state parliament. "If the objection is upheld, a new decision is issued with a correspondingly adjusted calculation. The decision will explain that the objection is thereby settled," the ministry stated.

"The high number of appeals shows: The property tax reform is a bureaucratic monster with many injustices," explained AfD MP Norbert Mayer. For example, value-reducing features such as unbuildable parts of the property or noise pollution are not taken into account. "We consider the standard land value to be unsuitable as a basis for valuation." The AfD parliamentary group has therefore called for property owners to be able to submit their own valuation report.

According to Mayer, it is already foreseeable that the new property tax will not be "revenue-neutral". "Instead, it will drive up housing costs for many people, including tenants. But housing needs to become more affordable instead of more expensive."

With an annual revenue of around 15 billion euros in Germany, property tax is one of the most important sources of income for local authorities. It is levied on real estate and is paid exclusively by the owners. In the case of rentals, it can be passed on to tenants via the operating costs. In Saxony, the most recent revenue amounted to around 530 million euros.

The property tax was reformed following a ruling by the Federal Constitutional Court. This means that around two million properties in the Free State have to be reassessed. City and municipal councils decide on the level of the so-called assessment rates. They are a factor used to determine the amount of property tax.

The Netherlands: Official WOZ home valuations will rise up to 4.5% in 2025, assessors office says

Official home appraisal valuations will rise between 2.5 percent and 4.5 percent in 2025 compared to this year, said the Netherlands Council for Real Estate Assessment. The organization, known domestically as the *Waarderingskamer*, released its predictions about WOZ home valuations on Tuesday morning.

The organization reviews whether municipalities are properly implementing the WOZ Act. Municipalities annually appraise the value of immovable property and calculate the WOZ.

Municipalities use that amount to determine property tax and other fees and taxes owed, such as sewerage charges that homeowners must pay.

In 2025, every homeowner will receive a WOZ value based on sales prices around the valuation reference date of January 1, 2024. This year, the WOZ value of homes only increased by 2.8 percent on average. That is also one of the reasons why far fewer people have filed objections to the WOZ value. Compared to 2023, the number of objections submitted was down by nearly half.

An exceptional number of WOZ objections were submitted in 2023. This increase was mainly caused by the strong average increase of 17 percent in the WOZ value. The rise in the number of commercial objection bureaus also played a role. However, since the start of the year, these objection bureaus have been obligated to charge lower legal costs, which makes their businesses less profitable.

Thanks to improved work processes and new technologies, municipalities were able to handle a lot more objections last year, according to the Netherlands Council for Real Estate Assessment. Yet, not everybody received the ruling results in time, leading to some homeowners having the decision regarding their objection that they submitted in 2023 answered a year later in 2024. The Netherlands Council for Real Estate Assessment shared that they believe the municipalities will again need a lot of time to judge and handle the objections this year.

According to the Netherlands Council for Real Estate Assessment, work is ongoing to further improve and increase transparency to increase confidence in the WOZ process. The council will also put extra work into the WOZ worth of buildings that are not homes, like offices and agricultural objects.

UK: Heathrow Faces £900 Million Business Rates Bombshell

Heathrow Airport is set to confront a near-£1 billion surge in business rates from 2026, a burden likely to be transferred to passengers by the airport's prospective new foreign owners.

Europe's busiest airport has been engaged in covert discussions with Whitehall officials, revealing an anticipated annual business rates escalation from £200 million to £300 million over three years starting in 2026. Heathrow, already the UK's largest payer of these rates, has been attempting to keep this £900 million total increase confidential to avoid backlash from airlines.

While Heathrow can pass the heightened rates onto airlines via increased airport charges, this move could exacerbate already tense relationships with carriers like British Airways and Virgin Atlantic, who have consistently voiced concerns over excessive charges. With around 80 million travellers passing through Heathrow annually, the £300 million annual rate hike equates to an estimated £3.75 per passenger if airlines pass on the additional costs. Consequently, a family of four might see an extra £15 per flight added to their fares.