

**EVOLUTION OF PROPERTY TAXES
PATHWAY TO SUCCESS**

**UNDERSTANDING THE POLITICS OF PROPERTY TAXATION:
WHEN, WHERE AND HOW TO DEAL WITH POLITICIANS**

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UNDERSTANDING THE POLITICS OF PROPERTY TAXATION: WHEN, WHERE AND HOW TO DEAL WITH POLITICIANS

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Introduction

The State must raise revenues in order to function. Traditionally, revenues have been raised from a variety of sources, in particular, taxation of tangible property. As taxation has evolved over the years, levies have been based on asset value, income or consumption.

Real property taxation has been in existence for hundreds of years and reflects a capital tax on real estate. Funds raised from this levy are used to provide varying government services. The determination of what government services are actually funded from real property taxation depends on the tax policy initiatives undertaken by the various taxing authorities.

Essentially, underlying the scheme by which these tax revenues are levied is a comprehensive system by which properties are valued, hopefully, in a fair and equitable manner so that the tax burden is fairly distributed amongst the stakeholders of the local jurisdiction.

It has often been said that it is not particularly important that individual property assessments be correctly determined provided that all properties are assessed in the same proportion of their true values, so that each bears its fair share of the tax burden.²

The property tax system best equipped to generate revenues in a fair and equitable manner has historically been based upon *Ad valorem*[®] principles.

In order for those principles to be applied, however, it is important that a fair and comprehensive system of valuing property is in place. It is equally as important that the system be comprehensible to the stakeholders and perceived as being fair and equitable.

¹ Special thanks to Dianne Poole (former M.P.P.), President, Politrain Inc.

² *Re Campeau Developments Ltd. et al. and Regional Assessment Commissioner, Region No. 29 et al.* (1983), 41 O.R. (2d) 39 at 42

To meet this criteria in transition countries, it will be necessary to prepare assessment valuations within local jurisdictions in order to establish the valuation base required for a fair and equitable distribution of the tax burden amongst the stakeholders.

In countries in which an *Aad valorem*[®] system has been established, it remains necessary to update the assessment valuations in place within local jurisdictions to ensure those values continue to reflect the real circumstances underlying both the valuations and the distribution of the tax burden amongst the stakeholders.

Unfortunately, politicians are reluctant to get involved in any changes to the existing property tax system. Property taxation is perceived to be a zero sum game. There will always be winners and losers. There will always be conflicting interests amongst the stakeholders. Those who tend to benefit from property assessment reform are often not heard from, but those who attract an additional burden squeal to the heavens.

It is important, therefore, in any circumstance in which efforts are being made to change the status quo of a property assessment system that those charged with that task understand when, where and how to deal with politicians.

When

When is early and often.

Many property tax initiatives actually undertaken with vocal support from the politicians flounder, as those politicians move to what they consider more pressing issues within their jurisdiction.

Committees are often struck recommending changes be made to the implementation of the property tax system at the local, state or national level. On the basis of such recommendations, initiatives are undertaken based on the sound principles advanced by experts.

In many cases, however, these initiatives once established are not adequately presented to the politicians. The linkage of property tax reform to other significant economic and/or social benefits is not made.

Those charged with implementing property tax reform should not wait until there is a finished product before meeting with the politicians. Politicians will resist being handed a fait accompli which did not have their input, but that they will have to defend.

All too often politicians do not understand the linkage of property tax to other important political concerns. Property taxation is a tool for the raising of revenues for local government services, but it is also significantly influential in creating economic development and social growth.

Property tax does influence economic development. Property tax does impact upon the community infrastructure and property tax does directly dictate the use of the land. These elements of property tax must be explained to the politicians.

Be sure, however, that the homework is done before the first meeting with the politicians takes place. The impact on their constituents must be determined. The linkage of property tax reform to issues of importance to the politician must be explained.

It is important, therefore, that once an initiative for property tax reform is undertaken, in the first discussion with the politicians, they be made aware not only of the fiscal foundation of that reform, but also of its significance to the broader economic and social community. More often than not, once an initiative is undertaken, the politicians move to other matters and allow the reform to proceed independently of their input or involvement. This is often a result of the failure of the politicians to be properly informed of the broader impact upon their constituencies of property tax reform. Often politicians are limited to hearing complaints arising from the financial consequences of such reform. Compounding the problem, the benefits that may flow are not generally adequately explained to those decision makers.

In the result, suddenly at the conclusion of the field analysis unanticipated consequences often arise. Politicians surprised by these results often yield to immediate knee jerk reaction thwarting the efforts initially authorized by them.

It is imperative as the initiatives move forward that as best as possible, the politicians through their political staff be kept in the loop and understand fully the ramifications of the reform as it moves forward.

Politicians must be fully briefed as changes occur. A politician's ire will be aroused if he or she is surprised or blind-sided by not having complete information. Politicians need to understand the ramifications so they can defend and advance the proposed reform. Give them the tools they need. By addressing the politician's concerns, their public opposition may be avoided or at least curtailed.

Where

Discussions undertaken with politicians should be both formal and informal, such that the politicians and their political staff are best advised as to the realities of the task as it moves forward. It is best to deal with politicians in a low profile manner. Why?

The tendency of reaction in public forum is to advance the political agenda as it exists at the time of the encounter. Political positions can be taken instantaneously without proper consideration of the long term impact of those positions. Once the position is taken in the public forum, it becomes entrenched as the policy advanced by the politician. Appropriate briefing of politicians and of their political staff is therefore critical to ensure reasoned understanding of the complex issues.

Understand how important staff is in advancing your agenda. They are a conduit to the politicians, and should not be ignored or pre-empted. Successful politicians rely

extensively upon the advice of their political staff. Staff are often influential in determining the ultimate course of action taken by the politicians on any complex issue. Avoid staff at your peril.

How

It is important that the appropriate steps be taken to work with politicians who might be impacted from a political perspective from any property tax initiative.

Traditional methods are often to no avail in the field of property assessment.

Property assessment rarely makes its way to the radar screen of politicians other than as a necessary burden to their political initiatives. Few politicians know the importance of property taxation and the impact of property tax initiatives on the broader economic scenario.

Understand that politicians are driven by decisions which help them get re-elected. Proposals should be presented to them emphasizing fairness, equity and opportunities for economic growth and social benefit. Give them information in a way which will help them sell the ideas to their constituents.

It is necessary therefore in dealing with politicians to make certain that they and their political staff are properly advised of the circumstances to be addressed by them, and that they be put in a position to be appropriately briefed as to the consequences of any steps that might be taken.

Briefing notes need to be prepared for delivery to politicians and their political staff in advance of any attempt being made to sway those politicians to the right decision with respect to property tax reform or any tax policy initiatives.

When politicians are briefed, they should also be given an executive summary of no more than one to two pages. The executive summary should explain the issues in simple terms. This will assist them in two ways. Firstly, it is likely they will actually read it themselves, which they often would not have the time or inclination to do with a 30-page brief. Secondly, it will assist them in explaining the issues to others in a clear, succinct manner.

It is essential to work not only with the political staff of the politicians but also with the bureaucratic personnel who are often charged with implementing any political initiative that might be undertaken.

Traditionally in mature economies, it is imperative that the bureaucratic personnel be on side to any political initiative. It can often be said that it is the agenda of the bureaucrats

that directs the government as opposed to the agenda of the government that directs the bureaucrats.

In transition countries, however, it may well be necessary to convince the bureaucratic personnel of the importance of educating the politicians. It is important to understand from a bureaucratic perspective that the politicians now look to their constituencies in a somewhat different manner that they might have historically. The bureaucratic personnel must learn to educate the politicians as to the importance of the property tax agenda for economic development and social policy initiatives.

Remember always to consider the mind-set of the politicians, and the need to link property tax reform to the broader political agenda.

In some circumstances local politicians may prefer to receive central subsidies as opposed to embarking upon property tax reform that would make their local government more self sufficient. In fact, in jurisdictions in which property tax reform has been undertaken, it has often been opposed by such local politicians who do not wish to accept the accountability arising from the need to generate local revenues to provide local services. In keeping, however, with the general economic trends, it is, in my view, inevitable that the trend to establishing a local revenue base to fund local government will continue. Politicians must be prepared for this eventuality by proper explanation of the need for property tax reform and its importance to economic and/or social development.

It is also important that the politicians be properly briefed as to the broader picture of property tax as it impacts the political agenda.

Property tax is in essence a capital tax. Therefore it is absolutely necessary to link that tax to the value of the asset in some generic manner. A lack of information should not be a detriment to the establishment of an *ad valorem* system of assessment. Steps can be taken, for example, to move from a unit value system to an *ad valorem* system, by initially establishing only necessary linkages of the unit values to market/location conditions.

Ironically, economic development can be retarded by the lack of an appropriate *ad valorem* property tax system. If such a system is not in place, objective criteria required by international investors and local developers for project funding may not be available.

Property tax should be linked to the provision of services to the community by the local government. A local revenue base gives rise to local accountability and establishes a local foundation for the development of an appropriate infrastructure. From a political perspective, the establishment of a local financial base establishes local political power.

Property tax provides local government with a sustainable stream of revenue. This allows municipalities to tap the capital markets and provides a basis for the funding of

municipal bonds. Politicians should understand the need for establishing a long term sustainable revenue stream in order to move forward with an appropriate political agenda.

The appropriate briefing of politicians and their political staff must include these aspects of property tax to allow for its placement in the overall scheme of the political agenda.

Conclusion

The goal of every politician in a free and democratic society, and even in a not so free and democratic society, is to get re-elected. Every action or reaction taken by the politician is to achieve this goal. This is the political reality of property tax reform.

In dealing with politicians, therefore, it is imperative that the steps be properly taken to promote the need for property tax reform as part of the political agenda. Property tax reform often fails the political test because it is presented to the politician as a necessary evil of fiscal responsibility.

Property tax reform should be presented to the politician as much more than that. Property tax reform is an assessment tool for economic development and social benefit. Repeat this again and again to the politician and property tax reform may become part of the political agenda.