

INTERNATIONAL PROPERTY TAX INSTITUTE

## **MODERNIZATION OF PROPERTY TAX IN ASIA**

### **COMMUNICATIONS WITH POLITICIANS AND TAXPAYERS: NEED FOR PUBLIC EDUCATION**

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# COMMUNICATIONS WITH POLITICIANS AND TAXPAYERS: NEED FOR PUBLIC EDUCATION

*Prepared by Richard N. Poole*

## **Introduction**

There is an economic reality consistent throughout the world. The State must raise revenue in order to function.

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

From time to time, eclectic schemes have been established to raise revenue, usually at the behest of special interests. Generally, any such eclectic system developed to raise revenue has proven to be inappropriate because of perceptions of unfairness or inequity, especially if seen to be favouring those special interests for which it was designed.

Of significant importance as a source of revenue, particularly in OECD countries, is the local property tax. In fact, property taxes are much more important in OECD countries than in developing or transition countries. Property tax in Canada is significant in relation to the GDP, amounting to approximately 4 percent of GDP in 1995. While property taxes are generally imposed more heavily on commercial/industrial properties than on residential properties, there is nevertheless a significant property tax burden on residential property owners in most OECD countries.

Given the significance of property taxation as a revenue source, it is important to establish comprehensive systems to value properties that are both fair and equitable and perceived to be fair and equitable. Only in that way can the property tax burden be seen to be fairly distributed upon the stakeholders in the local jurisdiction.

The property tax system best equipped to generate revenues in a fair and equitable manner is one based upon “*ad valorem*” principles.

In order for those principles to be successfully applied, however, it is imperative not that a fair and comprehensive system of valuing property is in place but also that it is perceived to be in place by the stakeholders.

In countries in which an “*ad valorem*” system has been established, however, it remains necessary to update the assessment valuations in place within local jurisdictions on a regular basis. Regular updates of assessed values ensures they continue to reflect the real circumstances underlying both the valuations and therefore the distribution of the tax burden amongst the taxpayers.

Unfortunately, politicians and groups of impacted taxpayers are often reluctant to involve themselves in changing the existing property tax system, and in fact often fight to preserve the status quo. Property taxation is perceived to be a zero sum game. There will always be winners and losers as any comprehensive system is updated and revisited. There will always be conflicting interests amongst the taxpayers, inevitably giving rise to some fighting diligently to preserve the status quo. Clearly, those who tend to benefit from property assessment reform are often not heard from, but those whose properties would attract an additional tax burden squeal to the heavens. In any circumstances in which efforts are being made to change the property tax system status quo, it is crucial that those charged with that task understand when, where and how to deal with the politicians and other taxpayers.

This is often done with a flurry of depositions, representations and discussions within the time frame of deliberations for property tax reform. Sometimes with success; sometimes not.

With reform undertaken, or alternately shelved, all too often the dialogue ends.

What has become apparent, however, in the past few years is a growing realization of the continuing need to deal directly with the politicians and taxpayers on an ongoing basis even when the property tax system reforms are being implemented.

### **Initial Communication**

In a paper presented to the IPTI Vancouver conference in August, 2003, I outlined the steps necessary to be taken as to when, where and how to deal with politicians<sup>1</sup>. The thrust of that presentation was to emphasize the need to educate politicians and taxpayers of the benefits that might flow from a reform of any particular property tax system.

All too often property tax initiatives undertaken with vocal support from politicians flounder as those politicians move on to what they consider more pressing issues within their mandate. Typically politicians seek to avoid issues surrounding property tax reform because of the perception that property taxation is a zero sum game.

Appropriate dialogue outlining the benefits of any such reform is imperative for the reform to succeed. The linkage of any such reform initiative to the impacted constituents must be analyzed and communicated appropriately to the politicians.

Politicians must be fully briefed with regard to any changes that might occur, which in turn requires any impacts of property tax reform analysis and disclosure on an ongoing basis. A politician's ire will be aroused if he or she is politically blind sided due to

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<sup>1</sup> *Understanding the Politics of Property Taxation: When, Where and How to Deal with Politicians* presented August 19, 2003 at IPTI's International Conference, [www.walkerpoolenixon.com](http://www.walkerpoolenixon.com) - Articles & Publications

incomplete information. Politicians need to understand the ramifications of a change in the status quo so they can defend or advance any proposed reform.

Those advocating a reform of a property tax system must be proactive in advocating their cause. The importance of property taxation and the impact of property tax initiatives on a broader economic scenario must be analyzed and presented to the decision-makers.

Too often property tax reform advocates fail to link that reform to the economic consequences that may flow from it. In the absence of such analysis, unintended consequences can result, or be perceived, that ultimately impedes or destroys the property tax reform initiative.

Significant public education must be undertaken in order to demystify property taxation. In the August, 2003 paper, I outlined specific steps that needed to be taken to educate in particular politicians and political decision-makers in order to be certain that they fully understand the reform's impact and benefit to their constituents or other stakeholders.

Those in the assessment community should be advised that, given the goal of every politician in a free and democratic society to be re-elected, typically every action or reaction by a politician is to help achieve this goal. That is the political reality of property tax reform.

That is the political reality of property tax.

### **After Property Tax Reform**

One would think that once a comprehensive system has been put in place on a fair and equitable basis and the disruption that might arise from property tax reform has been absorbed, with transitional adjustments made, that would be the end of it.

Unfortunately, recent experience in Ontario has demonstrated that it is not the end of it. In fact, many will say that that was the beginning.

Developments of late demonstrate beyond doubt the imperative of appropriate communications between the assessment community and politicians and taxpayers. Such communication must be comprehensive, informative and honest. Through such communications property tax can be demystified and the economic consequences of the ongoing implementation of property tax reform explained.

The failure of the assessment community in Ontario to continue the process of open communication after the implementation of property tax reform has contributed to a crisis of confidence in the system.

For decades, prior to 1998 there existed in Ontario a lack of political will to adequately reform property taxation within the province. In Toronto, the largest city in Canada, the last reassessment was in 1953, based on 1940 assessed values.

Several attempts over the years to reassess were unsuccessful because of the huge public and political outcry that surrounded any government initiative to update the assessed values in Toronto.

By 1998, however, realizing that the system could no longer sustain itself, the then Provincial Government implemented property tax reform. Updated values were established for all properties within the province and a scheme for ongoing annual reassessments was legislated.

All properties in the province were assessed based upon “current value”, which was a politically correct term for what otherwise is known as market value.

For commercial and industrial properties, certain transitional rules were put in place to phase-in the dramatic property tax shifts flowing from this reassessment.

A classification system was legislated to maintain the significantly heavier property taxes levied against commercial and industrial properties in relation to residential property owners. Those tax amelioration tools put in place for commercial and industrial properties were draconian at best. In fact, some would say that they negated the impact of the property tax reform and set back the establishment of a fair and equitable tax base for those property owners.

However, the details of those measures is the subject of another presentation. The issues surrounding the disconnect between assessment and taxation implemented by these legislative amendments requires significant independent analysis and a discussion far beyond the time allotted for this presentation.

Ironically, the public backlash to property tax reform did not emerge from the commercial and industrial property sectors. Rather, it was residential property owners impacted by the ongoing updated reassessments who mobilized opposition to the comprehensive system of assessment in place.

As a result of political pressure brought to bear upon the Premier, legislation “freezing” the assessment roll for three years will be brought before the Provincial Legislature this Fall.

The property tax reform initiated in 1998 updating property values annually with a current value regime has effectively been shelved.

The current value regime contemplated by the property tax reform of 1998 may well cease to exist.

Why?

### **Who is to Blame?**

In the twenty-first century, it is impossible to consider property assessment independent of the tax consequences that flow from a comprehensive system of property assessment and taxation.

Assessment practices, policies and procedures by which a comprehensive scheme of property assessment is established lead directly to financial consequences for the taxpayers and political consequences for the politicians.

Only by considering assessment valuation in an economic and political context can appropriate decisions be made.

The failure of the assessment authority to understand and communicate this reality is probably the most significant factor in bringing about the freeze of property tax reform in Ontario.

Perception creates reality. The perception of the Premier of the Province of Ontario is that the system of property assessment and taxation in Ontario for residential property is in shambles and needs fixing. The Premier has been quoted as saying “I don’t think anyone argues that there is not a problem and the Minister of Finance has now become seized with this. As a government, we become seized with this issue.”

“We are going to take some time to find a better way to address this and whatever we come up with will also be the subject of an extensive consultation”.

Astoundingly, the 1998 property tax reform establishing a fair and equitable assessment system based on current value is now perceived to be unfair and a problem. This is the perception despite the fact that those reforms were, at least in part, the result of significant review and consultation with respect to both historical and current assessment practices, policies and procedures.

Consistently since the publication of the *Committee on Taxation Report, 1967*<sup>2</sup> (Smith Committee), the case had been made to employ an appropriate “*ad valorem*” based assessment regime for the Province of Ontario. Subsequent consultations further reinforced the view of both politicians and taxpayers that only through an appropriate assessment regime anchored in “*ad valorem*” principles could a truly fair and equitable system be established. Reports considered by politicians of all political stripes came to the same conclusion<sup>3</sup>. The 1998 assessment reform flowed from recommendations by the Who Does What Panel, after extensive deliberation and consultation with impacted taxpayers<sup>4</sup>.

What went wrong?

Residential property values have escalated substantially from 1996 across most of Ontario. The current value assessment reform implemented in 1998 was based upon a

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<sup>2</sup> Committee on Taxation (Smith Committee) 1967. Report 3 Volumes Toronto

<sup>3</sup> See *Taxing Matters: An Assessment of the Practice of Property Taxation in Ontario*; October 1985; See *Fair Taxation in a Changing World Report of the Ontario Fair Tax Commission* @ Queen's Printer for Ontario, 1993

<sup>4</sup> *Who Does What Panel*: Periodic Report, August 20, 1996 (Appendix “A”)

1996 value. The most recent updated annual assessment for taxation in 2006 is based upon a 2005 value.

Residential properties across Canada have escalated in value by approximately 47 percent during that time frame.

Those increases in values were, of course, not equally distributed amongst residential properties within any municipality. With each updated assessment, shifts of tax burden within the class of residential properties were experienced municipality by municipality.

Those property owners whose properties escalated at a greater rate than the norm experienced higher property taxes. They complained to the government. The government listened.

Aggrieved taxpayers attacked the assessment authority. The government listened. Aggrieved taxpayers asked the Ombudsman to intervene. In its cocoon, the assessment authority did nothing. The Ombudsman intervened.

Who is the Ombudsman? The Ombudsman is an Officer of the Provincial Legislature who is independent of the government and political parties. The Ombudsman's job is to ensure the accountability of government through effective oversight of the administration of government services in the province.

The Ombudsman was asked to conduct an investigation into the transparency of the property assessment process, and the integrity and efficiency of decision-making at the Municipal Property Assessment Corporation ("MPAC"), the assessment authority.

The Ombudsman probed, and in a scathing report he called the assessment system “unreasonable, unjust, oppressive and wrong”.

A damning indictment of the assessment authority. Or was it?

The Ombudsman determined that MPAC was, in many respects, an impressive corporation performing a massive and challenging task with fewer resources than it should have. He was struck by MPAC’s ambition to be a leader in the property assessment field with a rigorous quest for improvement and consistent attempts at self appraisal. He was encouraged by the peer approval MPAC has received from the International Association of Assessing Officers. MPAC was awarded the IAAO Distinguished Assessment Jurisdiction Award in 2004.

In performing its function as an assessment authority, after detailed investigation the Ombudsman concluded that MPAC was doing a good job.

But was MPAC communicating to the politicians and to the stakeholders that it was doing a good job? The Ombudsman found that MPAC was operating with an exaggerated sense of the quality of its product, an unhealthy commitment to its complex computerized method of mass appraisal, and a habit of secrecy that was too deep to engender public trust.

MPAC was doing a good job, but nonetheless suffered from overconfidence. MPAC suffered from a complete internalization of its mandate satisfied that it had mastered its computerized method of mass appraisal, MPAC believed it need not communicate consistently to politicians and taxpayers the important link of that computerized method of mass appraisal to the reality of the world - both for establishing assessed values and to analyze the financial consequences of implementing those values.

MPAC's habit of secrecy was too deep to foster public trust. By keeping its assessment practices, policies and procedures hidden; by failing to properly communicate with the politicians and taxpayers, the public trust was perceived to be broken.

It was not the work that MPAC did that caused the Ombudsman concern, it was MPAC's cocoon-like attitude surrounding that work.

The perception of MPAC in the public was devastating to the continuation of property tax reform in Ontario.

The Ombudsman reported that he was aware that MPAC's own internal customer satisfaction surveys tend to show well. Frankly, however, he questioned those results, stating:

*Never in the 30-year history of this Office have so many complaints been received in so short a period about a single public agency. Our office was inundated with protests from disaffected citizens - more than 3,700 of them. Ontarians came, wrote, called and emailed and they were not doing it just because they had a form for complaining about their taxes. They complained because they see MPAC's assessment practices as fundamentally unfair. I am not persuaded that all the problems are as deep as some believe, but there are real problems that need attention. Until they are addressed, MPAC will simply not be trusted...*

MPAC is an impressive corporation, but its failure to communicate with politicians and taxpayers, to think outside the box of computerized mass appraisal, created the crisis of confidence.

In many respects, the assessment authority remained truly isolated from those politicians and stakeholders it purportedly served. MPAC failed to reach out in a meaningful

way to explain its mandate and to address the economic and political consequences of its actions.

The exaggerated sense of the quality of MPAC's product created an adversarial atmosphere in dealings with the public and the statutory tribunal empowered to review assessments.

The assessment authority had clearly failed to take heed of the findings of the 1985 Taxing Matters Report<sup>5</sup> in dealings with taxpayers during assessment reviews and in Assessment Review Board proceedings.

The lesson of these events is clear: in the twenty-first century, assessment valuation and the activities of an assessing authority cannot exist in the cocoon of assessment practices, policies and procedures.

The impact of those assessment, practices, policies and procedures are significant, within both the political and economic spheres of the jurisdiction in which the assessment authority exists.

The whole of the assessment community must link assessment of real property to its consequences. It no longer suffices to say:

“I'm just the assessor”.

“We do good work in multiple regression analysis”.

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See Taxing Matters, *supra*.

“This is just assessment”.

“We don’t deal with taxes”.

Within the complex society of the twenty-first century, a politician’s ire will be aroused if he or she is surprised or blind sided by any undisclosed information, including the impact of assessments, valuations, updates or reform.

Those of us in the assessment community must take assessment practices, policies and procedures forward by communicating meaningfully with politicians, taxpayers and other stakeholders. Assessment valuation is simply a part of an integrated scheme to raise taxes for local government purposes. Property taxation may be in part a tax on capital. The property tax regime may be of economic consequence to varying stakeholders with varying interests. The consequences of the actions of the assessment authority in valuing properties must be communicated to politicians and taxpayers. The integration of assessment valuation and tax policy must be fully disclosed and, if necessary, justified. Assessment must be demystified. The arrogant attitude of an assessment authority must disappear. Only by embarking on an effective program of disclosure and communication can there be sufficient public trust established to sustain a fair and equitable system of property assessment and taxation.