

EXPOSURE DRAFT OF PROPOSED INTERNATIONAL VALUATION GUIDANCE NOTE – MASS APPRAISAL FOR PROPERTY TAXATION

Comments to be received by 31 March 2004

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International Valuation Guidance Note

Mass Appraisal For Property Taxation

1.0 Introduction

- 1.1 The objective of this Guidance Note is to provide a framework for the performance of *Mass Appraisal* assignments for *Ad Valorem Property Taxation* throughout IVSC Member States. The Guidance Note provides assistance in understanding recognised Mass Appraisal methods, in the design and implementation of property taxation systems and the relationship to International Valuation Standards.
- 1.2 The Mass Appraisal process may be utilised as a methodology for *Ad Valorem Property Taxation*, or statistical and economic studies under government administrative programs. The appraisal outputs facilitate revenue raising, revenue equalisation, and the distribution of financial benefits or grants to government authorities. In this Guidance Note, a reference to Mass Appraisal implies Mass Appraisal for the above purposes.
- 1.3 For a property taxation system to be effective, the following elements must be in place:
- (a) a legal system and legal infrastructure that define, support and protect property rights;
 - (b) a recording and inventory system for all land, which represents the basis of taxation;
 - (c) sufficient market data from which valuations may be determined;
 - (d) sufficient resources and trained personnel to implement the system;
 - (e) continued maintenance of the inventory and databases to ensure more refined data, more accurate valuations, and more equitable taxation; and
 - (f) a process for sampling and testing developed models to ensure consistency of methodology and application.
- 1.4 The Mass Appraisal process includes:
- (a) identifying properties to be appraised;
 - (b) defining the market area in terms of consistent behaviour on the part of property owners and would-be purchasers;
 - (c) identifying characteristics of supply and demand that affect the creation of value in the defined market area;

- (d) developing a model structure that reflects the relationship among the characteristics affecting value in the market area;
 - (e) calibrating the model structure to determine the contribution of the individual property features affecting value;
 - (f) applying the conclusions reflected in the model to the characteristics of the property(ies) being appraised;
 - (g) reviewing and reconciling the Mass Appraisal results.
- 1.5 The valuation basis for Mass Appraisal is *Market Value* as defined in *IVS 1, Section 3*, subject to any modification of the concept as specified under relevant instructions or legislation. If these instructions or legislation create a divergence from *Market Value* as defined above, the estimation of such newly defined values may require application of methods that produce results other than *Market Value*.
- 1.6 Mass Appraisals can be prepared with or without computer assistance. While computerised methodology has made the Mass Appraisal process more efficient and more widespread, it has not altered that process. Data banks and computerised applications are used in data storage, mapping, data analysis, and testing of the analytical results.
- 1.7 While local legal requirements will take precedence, observance of the *IVS Code of Conduct* is, nonetheless, incumbent upon assessment personnel, who carry out Mass Appraisals. The concept of *Market Value* is recognised as the assessment basis in most jurisdictions. The requirements of the *IVS Code of Conduct* necessarily supplement those of local law. Requirements under the *Code of Conduct* apply to:
- (a) the mass valuation process itself; and
 - (b) the use of computers and computer-generated models in the mass appraisal process.

2.0 Scope

- 2.1 **The professional responsibility of Valuers is, in most instances, prescribed by statute or regulations affecting Mass Appraisal assignments. It is the professional duty of the Valuer to be familiar with, adhere to, and administer the provisions of any enabling legislation.**
- 2.2 The various outputs from Mass Appraisal programs have financial implications in government administration. For purposes of revenue raising, revenue equalisation, or the distribution of benefits or grants, any departure from an accurate basis of assessment will result in inequities. Local statutes prescribe the basis and definitions of values to be returned (i.e., the assessments or indices developed in Mass Appraisal assignments), the administrative procedures for the collection and delivery of valuation data, the time-frames between undertaking Mass Appraisals, and the processes for appeal of assessments or indices.

2.3 The scope of the completed assignment shall be consistent with:

- (a) the expectations of participants in the market for the same or similar valuation services; and**
- (b) the requirements of IVSC Standards, Guidance Notes and Applications for the same or a similar assignment.**

3.0 Definitions

3.1 *Ad Valorem Property Taxation.* A revenue-raising procedure, based on the assessed value of property related to a scale of charges defined by statute within a specified time-frame.

3.2 *Mass Appraisal.* The practice of appraising multiple properties as of a given date by a systematic and uniform application of appraisal methods and techniques that allow for statistical review and analysis of results.

4.0 Relationship to Accounting Standards

4.1 **Mass Appraisal does not fall under the governance of national or international accounting standards.**

4.2 Valuers should be aware that revaluation procedures for financial reporting purposes are unrelated to Mass Appraisal procedures for *Ad Valorem Property Taxation*.

5.0 Guidance

5.1 Data Collection and System Recording

5.1.1 A robust data collection system must be available to the Valuer. The recording of data has evolved from the use of manual methods to the creation of sophisticated data banks that facilitate computer-assisted appraisal, often incorporating geographic information systems (GIS). Property data may be quantitative (e.g., land areas, dimensions, building specifications) and/or qualitative (assessment of the physical condition, character, or market desirability of the improvements).

5.1.1.1 Appraisal data banks are built around land tenure records, e.g., title deeds, transfer documents, and sales information, in national, federal, state or local government jurisdictions that define property ownership or interests in land.

5.1.2 Characteristics of the market that are relevant to the purpose and intended use of the Mass Appraisal shall be recorded in the system including:

- (a) location of the defined market area;**
- (b) physical, legal, and economic attributes of the properties;**
- (c) time-frame of market activity; and**
- (d) property interests reflected in the market.**

5.2 The Development and Maintenance of Assessment Lists

5.2.1 Assessment Lists will contain information on property ownership, value definitions, details of the assessment, date of the assessment, and date on which the assessment comes into force.

5.2.2 Assessment Lists must allow for periodic adjustments or alterations to ensure the currency and consistency of assessed values.

5.3 Mass Appraisal Value Definitions

5.3.1 Where mass appraisal is undertaken for the purpose of *Ad Valorem Property Taxation*, value definitions are generally mandated by local statute. Specific valuation methodologies may be required under different value definitions.

5.4 Standards of Appraisal Level and Uniformity

5.4.1 In the interests of assessment equity, standards of appraisal level (the proximity between assessments and actual prices) and uniformity (statistical measure of valuation consistency) must be observed in the application of mass appraisal systems.

5.5 Disclosure in Mass Appraisal Assignment Reports

5.5.1 Valuers undertaking Mass Appraisal assignments are subject to the provisions of *IVS 3, Valuation Reporting*. The Valuer shall disclose the following essential data that is specific to Mass Appraisal reporting:

- (a) the client and other intended users;**
- (b) the purpose and intended use of the appraisal;**
- (c) the scope of work necessary to complete the assignment, including any special limiting conditions;**

- (d) **any extraordinary assumptions and hypothetical conditions needed to carry out the assignment, provided these are reasonable and result in a credible analysis;**
- (e) **the relevant basis of valuation if, under reasonable terms and conditions, the value opinion to be developed is other than *Market Value*;**
- (f) **the characteristics of the properties that are relevant to the purpose and intended use of the Mass Appraisal;**
- (g) **a reference to each individual property in the Assessment List or grouping, indicating where information is stored in the property record relating to its identity;**
- (h) **the characteristics of the market that are relevant to the purpose and intended use of the Mass Appraisal (see para. 5.1.2).**

5.6 Departure

5.6.1 Departure from the instructions in this Guidance Note should only result from the provisions of statutory provisions, administrative instructions, or the agreed or amended terms of appraisal contracts.

5.6.2 Further discussion on Departure provisions is set out in section 6.8 of the International Valuation Standards Code of Conduct.

6.0 Effective Date

6.1 This International Valuation Guidance Note became effective on XXX