

## 2.011 COMMERCIAL BUILDINGS UNDER CONSTRUCTION

**Oregon Statute:** 307.330

**Sunset Date:** None

**Year Enacted:** 1959

2021-22 Estimated Reduction in the Taxable Assessed Value: \$1.3 billion

	Loss	Shift
2021-23 Revenue Impact:	\$40,400,000	\$9,900,000
2023-25 Revenue Impact:	\$44,800,000	\$10,900,000

**DESCRIPTION:** Certain commercial and industrial buildings are exempt from property taxation while they are under construction. A new structure or an addition is exempt from property taxation if meeting the following criteria on the January 1 assessment date:

- The property is under construction, including additions to an existing structure.
- No part of the new structure or improvement has been or is in service for any commercial use or occupancy.
- The property is being built for the purpose of earning income.
- The property is not to be occupied for at least one year after construction began in the case of any non-manufacturing facility.
- The property is not centrally assessed by the Department of Revenue.

The exemption cannot be claimed for more than two consecutive years. Machinery and equipment at the building site also qualifies if it will be installed as real property in the structure. The property is listed on the county property tax assessment roll, but the assessment is canceled if proof that the property meets the above requirements is furnished to the assessor by April 1 of each assessment year.

The revenue impact estimates include those from the largely interchangeable tax expenditure 2.012, Construction in Process in an Enterprise Zone.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage business investment in plant and equipment by delaying property taxes until a facility can generate cash revenue. Manufacturing firms do not commonly experience immediate cash flow.

**WHO BENEFITS:** In fiscal year 2021–22, 201 properties were exempt under this expenditure or under 2.012, Construction in Process in an Enterprise Zone. The use of this provision is driven by construction projects and fluctuates significantly. The majority of the exempt value is in Washington County.

**EVALUATION:** *provided by the Oregon Business Development Department*

This expenditure achieves its purpose by allowing new traded-sector investments to delay paying property taxes until they are much more likely to be able to earn revenue. Economic consequences are also relevant. New construction and investments might be significantly deterred by the additional up-front cost of paying property taxes on partially finished but still unproductive property.

This expenditure is administratively effective and efficient. Alternatives to this expenditure would be to refund such taxes through direct payments or credits on other taxes. The administrative burdens and complexity of such alternatives suggest that the current exemption is preferable.

This program might be underutilized, probably because it is not widely known outside Portland and other metropolitan areas (as noted above, aside from utilization with enterprise zones); administrative technicalities may also limit accessibility. Otherwise, although manufacturing operations are favored, this expenditure has been available to any industry sector consistent with its purpose for more than 50 years.

## 2.012 CONSTRUCTION IN PROCESS IN AN ENTERPRISE ZONE

**Oregon Statute:** 285C.170

**Sunset Date:** None (enterprise zone program sunsets 06-30-2025, except for reservation enterprise and reservation partnership zones)

**Year Enacted:** 2003

2021-22 Estimated Reduction in the Taxable Assessed Value: Included in 2.011, Commercial Buildings Under Construction

	Loss	Shift
2021-23 Revenue Impact:	Included in 2.011	Included in 2.011
2023-25 Revenue Impact:	Included in 2.011	Included in 2.011

**DESCRIPTION:** Property undergoing construction, addition, modification, or installation is exempt from property taxation for up to two consecutive years provided that the property satisfies all the following requirements:

- Located in a current enterprise zone.
- Owned or leased by a business firm authorized by the local zone sponsor and county assessor to receive the standard enterprise zone exemption on qualified property – expenditure 2.013, Enterprise Zone Businesses.
- Will be qualified property upon completion, in that there is no known reason to conclude that the property or firm will not satisfy the requirements for 2.013, Enterprise Zone Businesses.
- Has not been exempt under 2.011, Commercial Buildings Under Construction.
- Not centrally assessed.
- Will not be operated as a hotel, motel, or destination resort.

This exemption is effectively an extension of expenditure 2.011, Commercial Buildings Under Construction, specifically to properties that are expected to qualify for a standard enterprise zone exemption (2.013, Enterprise Zone Businesses) when they are completed. If a property is exempt under 2.011 in a subsequent year, the combined duration of the exemptions cannot exceed two consecutive years.

**PURPOSE:** “To stimulate and protect economic success ... throughout all regions of the state, but especially in those communities at the center of or outside major metropolitan areas for which geography may act as an economic hindrance ... by providing tax incentives for employment, business, industry and commerce and by providing adequate levels of complementary assistance to community strategies for such interrelated goals as environmental protection, growth management and efficient infrastructure” (ORS 285C.055).

**WHO BENEFITS:** See 2.011, Commercial Buildings Under Construction.

EVALUATION:

*provided by the Oregon Business Development Department*

This program has achieved its purpose in allowing for a more straightforward message about the new property that is exempt in an enterprise zone – both before and after that property is placed in service. Most standard enterprise zone projects, if they still have property in the process of construction/installation on January 1, will be able to avail themselves of this exemption. Consequently, this tax expenditure has contributed to the ability of Oregon’s enterprise zone system to attract and spur development, and new employment, in especially interested and economically distressed parts of Oregon. It will also smooth out administration of property subject to exemption over the course of taxpayer’s investment.

In the absence of this tax expenditure, most affected property could otherwise be exempt under the rather longstanding tax expenditure 2.011, Commercial Buildings Under Construction. At times, however, that exemption will cover less property. Additional coverage under this provision compared to 2.011 includes:

- A project of an authorized business firm with no new construction or additions to a building or structure, but rather only modifications to or installations of qualified property that were incomplete but still had an appreciable effect on valuations as of a given January 1 assessment date
- Property items that once fully installed will remain personal property
- Real property machinery and equipment installed directly on land and not inside a building or otherwise affixed to a structure
- Nonmanufacturing facility (*e.g.*, a distribution center) necessitating less than 12 months to build
- Property that is still in the process of construction, reconstruction, modification or installation in a year after another part of the same facility or building has already been placed in service—property is severable with this program.

It is not possible to isolate and analyze usage of this tax expenditure independent of 2.011, Commercial Buildings Under Construction, because they operate through parallel filing systems and are basically interchangeable. The differences are transitory and tend to involve factors that would only modestly affect total market value. Though in certain cases, the last two bullets above could entail substantial property tax abatement in a given year.