

Reforming the Property Tax in Oregon: A Proposal to Adopt a Land Value Taxation System

An LVT Primer

**Reform Legislation proposed by
Common Ground of OR-WA**

Prepared by Tom Gihring & Kris Nelson, Common Ground OR-WA

Why is Measure 50 so unfair?

M-50 limits maximum assessed values (MAV) to an increase of only 3% annually

Distributional effects:

- Increasing separation of true market and taxable values
- Unequal treatment of taxpayers
- Continuous revenue shortfalls

A Study by the **Northwest Economic Research Center** at PSU found that by 2019 MAV assessments lagged far behind real market assessments (RMV), and the gap has been increasing every year. <http://www.pdx.edu/nerc/>

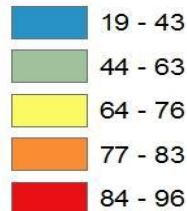
Taxable Values are far below Real Market Values resulting in horizontal inequities

Inner Northeast
Portland MAV:RMV
Ratio: 29%

All single-family parcels:
Mean MAV = \$151,293
Mean RMV = \$518,808

By 2018 the Multnomah
County average MAV:RMV
ratio fell to 39%

Mean AV/RMV (%)



Prepared by Northwest Economic Research Center

Outer Southeast
Portland MAV:RMV
Ratio: 55%

Result: The property tax on a \$500,000 home in INE is about \$4,700; an equivalent home in OSE would be billed about \$6,000.

Oregon's property tax structure is significantly affecting home sale prices

Artificially low property taxes are capitalized into a higher sales price

"Capitalization Study" by the Northwest Economic Research Center: Where RMV rises quickly relative to MAV these owners, paying disproportionately low taxes can add a premium at time of sale to reach market price.

Inner
Northeast
Portland

This increase is a consequence of Oregon's property tax system, not the owners' efforts. This amounts to a hidden subsidy for some property owners.

The result: revenue shortfalls and the need for property owners in lower income areas with a smaller increase in RMV to disproportionately fill the gap.

Outer
Southeast
Portland

Why is Oregon's current tax system so regressive?

Oregon's attempt to limit the growth in property tax assessments with Measure 50 in 1993 resulted in unintended consequences:

- The bulk of the tax burden falls on building investments.
- The tax falls lightly on land-consuming uses where building investments are minimal.

Land Use effects:

Urban Sprawl

- Devouring valuable resource lands
- High household transportation costs

Land price
inflation

- Land speculation and windfalls
- High housing costs

Solution: reform the tax system

Authorize a local option LAND VALUE TAX, exempting participating counties from M-5 and M-50

Replace false MAV assessments with RMV.

Replace the equal rate tax with a two-rate tax.

This will...

- **Restore equal treatment of taxpayers**
- **Create incentives for the best use of land**
- **Dampen land price inflation**

The Economic Principles of Land Value Taxation

Land value largely belongs to the community

Building value belongs to the owner

LAND VALUE

Represents the presence of...

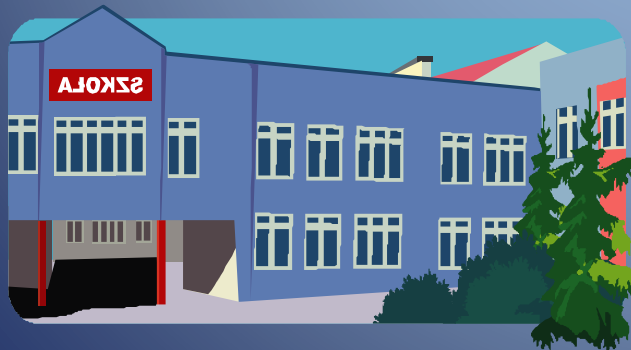
- Public infrastructure
- Public facilities & services
- Area amenities, desirability

BUILDING VALUE

Represents...

- Owner's capital investment

SOCIALLY-CREATED VALUE



PRIVATELY-CREATED VALUE



The Principle Of Progressive Taxation:

(A tax tends to diminish its tax base)

What is in the public interest should be taxed less

What is not desirable should be taxed more



Labor, capital investment



Land / Resource consumption

The current property tax system does
just the opposite...

Taxing **Capital investment** more

Land / Resource consumption less

Reasons for changing to incentive taxation:

Encourage private capital investment

Discourage speculative land holding

Expected Land Use Effects:

- Bring idle land into production
- Intensify land development
- Discourage building deterioration
- Encourage infill development

Expected Distributional Effects:

- Equal treatment of taxpayers
- Reallocation of tax burden
- Accurate property assessments
- Restraint on home prices

Three Steps to Reform

Step 1 Phase out MAV assessments

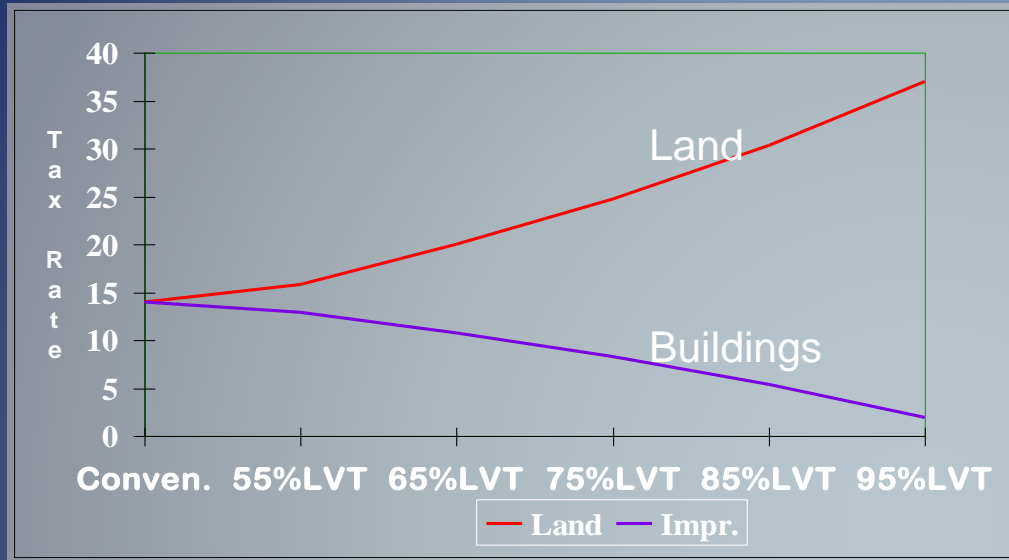
Step 2 Phase in RMV assessments

Step 3 Phase in LVT

Proposed features expressed in LVT legislation:

- Local option (a county is preferable to a municipality)
- Uniform tax rates (same rates apply to all taxing districts)
- Revenue neutral in first year

How a 2-rate tax works during a phase-in period



RMV assessments replace MAV.

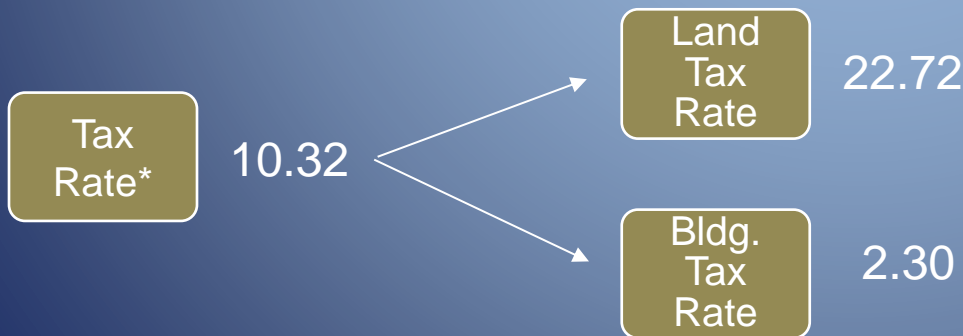
Because total RMV within a county is higher than MAV, the total tax rate must be lowered to achieve revenue neutrality.

LVT is structured as a split-rate.

The building tax rate is reduced, the land tax rate is raised.

CONVENTIONAL TAX

TWO-RATE TAX



2018 assessments, 90% LVT

When lowering the tax rate in Multnomah County the mill rate changes from...



Incentivizing Redevelopment with LVT

Showing the 3-step transition from MAV to RMV to LVT

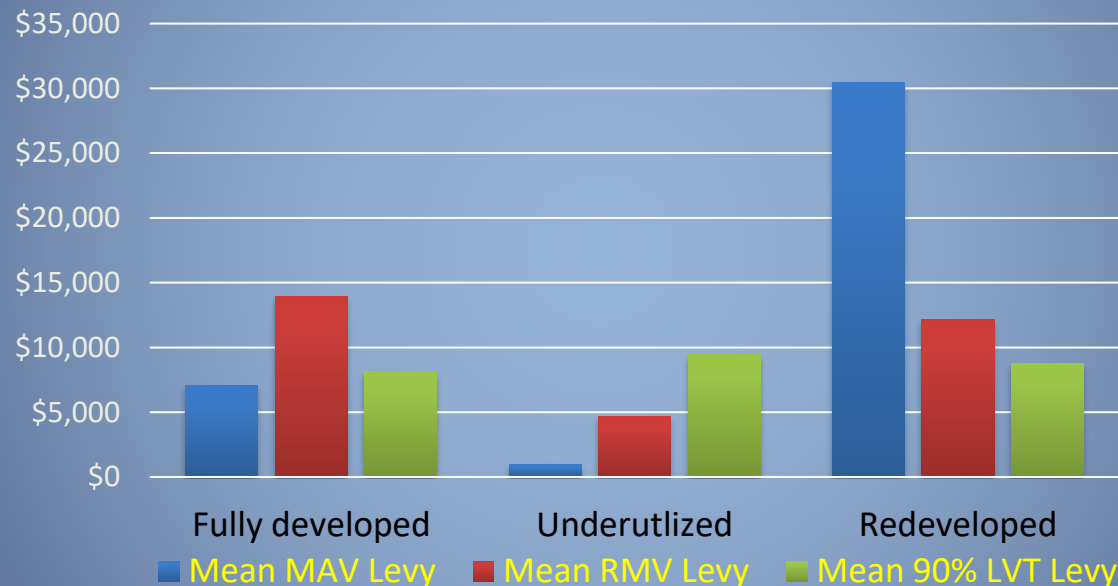
A REDEVELOPMENT SCENARIO

Redevelopment

- occurs on vacant & underutilized parcels
- is built at full zoned capacity

NE Alberta District

Existing utilization - remains the same on fully developed



- If MAV remained in effect, redeveloped parcels would see a steep tax increase
- On vacant and underutilized parcels – tax levies increase during transition
- On the same parcels when redeveloped – tax levies decrease during transition

Tax shift effects of a change in Salem back to RMV assessments – with a Land Value Tax*

LVT taxes on...

- Multifamily apartments decrease by 28.0%
- Commercial services & offices decrease by 5.0%
- Downtown surface parking lots increase by 92.0%
- Downtown vacant lots increase by 104.6%

... compared to a revenue neutral conventional tax on MAV taxable assessments.

These effects reinforce the principles of progressive taxation and the objectives of the state's Urban Growth Management Act.

* 75% LVT Ratio

The Price Dampening Effect of a Land Value Tax

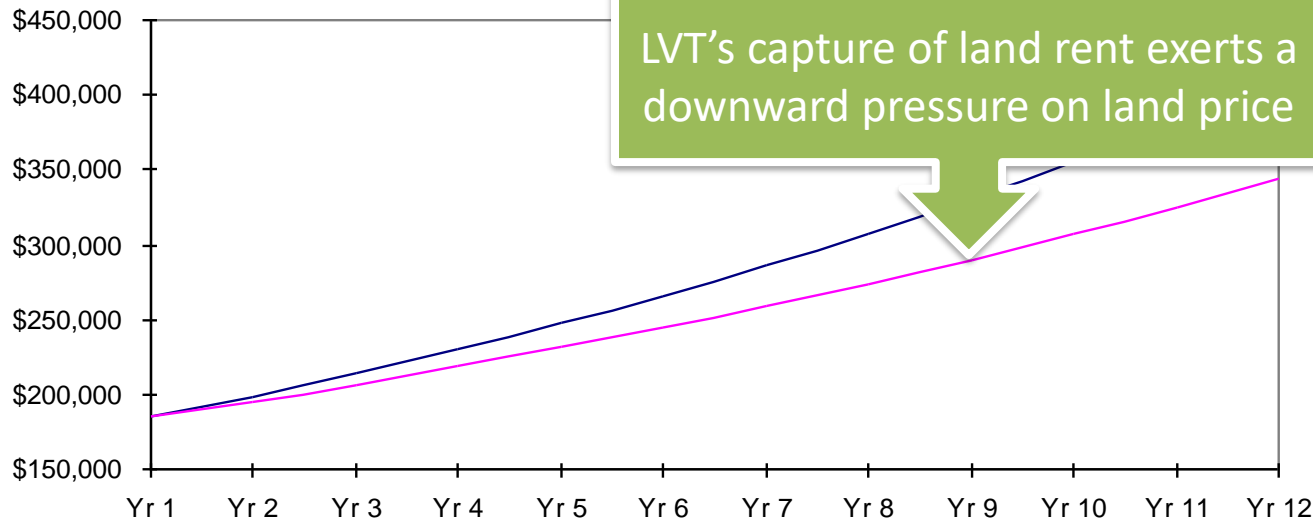
Tax capitalization in reverse:

The higher tax rate on real market land value is capitalized into a lower selling price

This effect is magnified on underutilized properties where the land-to-total value ratio is high



This effect is offset on high density development where the land-to-total value ratio is low



Over time,
housing
will
become
more
affordable

Does LVT capture all accumulated equity?

- 1) The housing affordability crisis stems from the assumption that housing is a commodity to be purchased, held, and resold to build wealth.
- 2) But land value gain is not a legitimate investment; unlike applying capital to building improvements, it is speculative, independent of owner's influence.
- 3) Therefore, the purpose of LVT is to capture the unearned increment from rising land values -- **Land Rent**.

LVT is designed to capture annual land rent and relinquish building values

However, in practice the 2-rate LVT doesn't capture all of a property's land rent. A large portion remains with the owner.

Land Rent Capture Rates:	% captured:	% retained by owner
• Single family residential	45%	55%
• Multifamily (20+ units)	38%	62%
• Vacant & underutilized	48%	52%
• Commercial	41%	59%

* Data from NERC study: 90% LVT; 6% ann. land value Increase

Conclusion

LVT would do what it is designed to do...

- **Provide a more equitable tax structure**
- **Incentivize structure upgrading**
- **Incentivize redevelopment of underutilized sites**
- **Encourage highest & best use of land**
- **Discourage land speculation**

Hardship cases can be mitigated with carefully crafted legislation

Key Provisions of a Study bill examining feasibility of LVT

The Legislative Revenue Office will conduct a study of LVT, to include:

- Examination of tax burden effects changing from taxation under M-5 & M-50 limitations to taxation under LVT.
- Simulation model comparisons using MAV and revenue neutral RMV assessments.
- Examine comparative economic incentive effects in urban and rural jurisdictions.
- Examine comparative revenue-generating effects on rural Enterprise Zones.
- Examine possible tax burden relief measures for hardship cases.₁₇

What have LVT cities shown us?

- Restore fairness and efficiency to the property tax system.
- More stable than other taxes: sales, income; and moderates real estate boom – bust cycles
- Broaden the tax base: increases owner-occupancy, business growth.
- Self-perpetuating finance: as building intensity increases and up-zoning occurs, land values rise... local government captures more value to invest in infrastructure.

