

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**

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for Portland for Everyone

Incentive Property Taxation Objectives:

Encourage private capital investment

Discourage speculative land holding

Expected Land Use Effects:

- Bring idle land into production
- Restrain rising residential lot prices
- Intensify land development
- Discourage building deterioration
- Encourage infill development

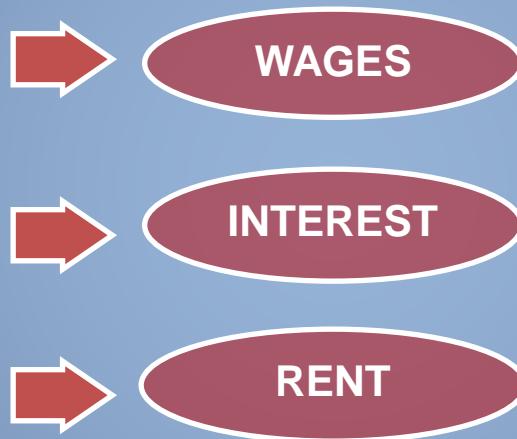
THE PRINCIPLE OF ECONOMIC JUSTICE:

Value accrues to the creator of value

FACTORS OF PRODUCTION:



RETURN:



Productive enterprise:

Employment
Economic growth
Conservation

RENT – unearned income from rising land value

The Economic Principles Of Land Value Taxation:

Land value belongs to the community

Building value belongs to the owner

LAND VALUE

Represents the presence of...

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

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



Job growth



Capital investment



Land / Resource consumption

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

Taxing **Capital investment** more

Land / Resource consumption less

- By taxing land and improvement values at the same rate, the bulk of a jurisdiction's tax falls on building investments.
- The tax falls lightly on land-consuming uses where building investments are minimal.

The results?

Urban Sprawl

- Devouring valuable resource lands
- High household transportation costs

Land price inflation

- Land speculation and windfalls
- High housing costs

What is in the public interest should be taxed less.



LVT taxes improvement assessments
at a lower rate.

What is not desirable should be taxed more.



LVT taxes land assessments
at a higher rate.

The equal rate tax is replaced by a two-rate tax.

The two-rate LVT Ratio is expressed as the percentage of the total tax rate applied to land assessments

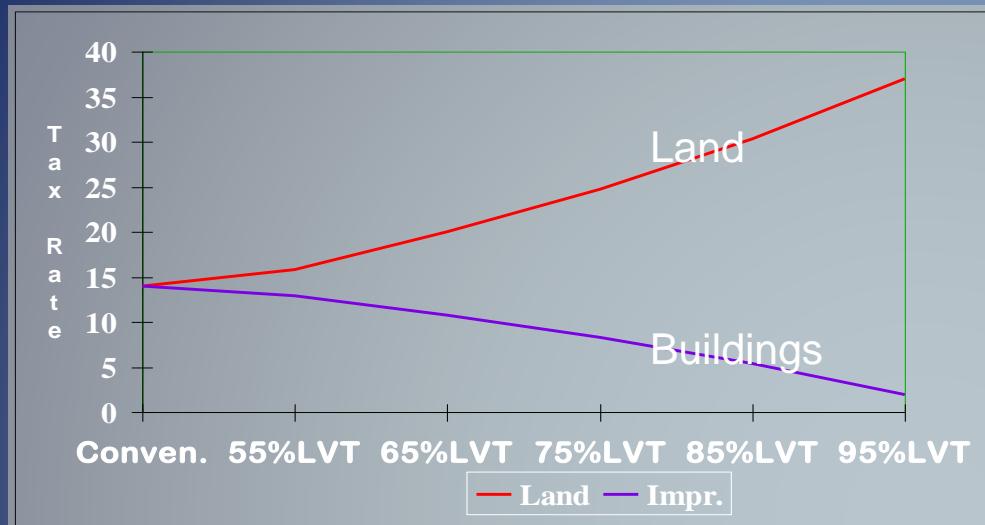
Example of an LVT tax rate structure during a phase-in period

Phase-in Year:	Total Tax Rate:	LVT Ratio:	Land Tax Rate:	Building Tax Rate:
Yr. 1	21.00	55% LVT	24.03	19.66
Yr. 2		60% LVT	27.14	18.09
Yr. 3	(mill rate)	65% LVT	30.48	16.41
Yr. 4		70% LVT	34.10	14.61
Yr. 5		75% LVT	38.01	12.67

Proposed features expressed in LVT legislation:

- Local option
- Uniform application of tax rates
- Revenue neutral in first year

Why do Measure 5 limitations not work with LVT?



When the building tax rate is reduced, the land tax rate must rise to achieve revenue neutrality.

Example:

CONVENTIONAL PROPERTY TAX

$$\text{Tax Rate} = 13.89$$

TWO-RATE PROPERTY TAX

Land
Tax
Rate

$$= 26.76$$



This rate exceeds M-5 limits.

Bldg.
Tax
Rate

$$= 8.92$$

Why is M-50 so unfair?

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

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

A Study by the **Northwest Economic Research Center** at Portland State University found that by 2019 tax burdens had shifted from high value areas where land values grew rapidly – to low income communities where land values grew more slowly.

<http://www.pdx.edu/nerc/>

Consider Salem City parcels following 6 years of MAV* assessments:

Taxes on ...

... compared to a revenue neutral tax on RMV assessments.

These effects counteract the principle of progressive taxation and the objectives of Oregon's Urban Growth Management Act.

* Maximum Assessed Value, under M-50 limitations
(3 Percent annual increase)

What are the tax shift effects of a change back to RMV* assessments – with a Land Value Tax?

LVT taxes on Salem...

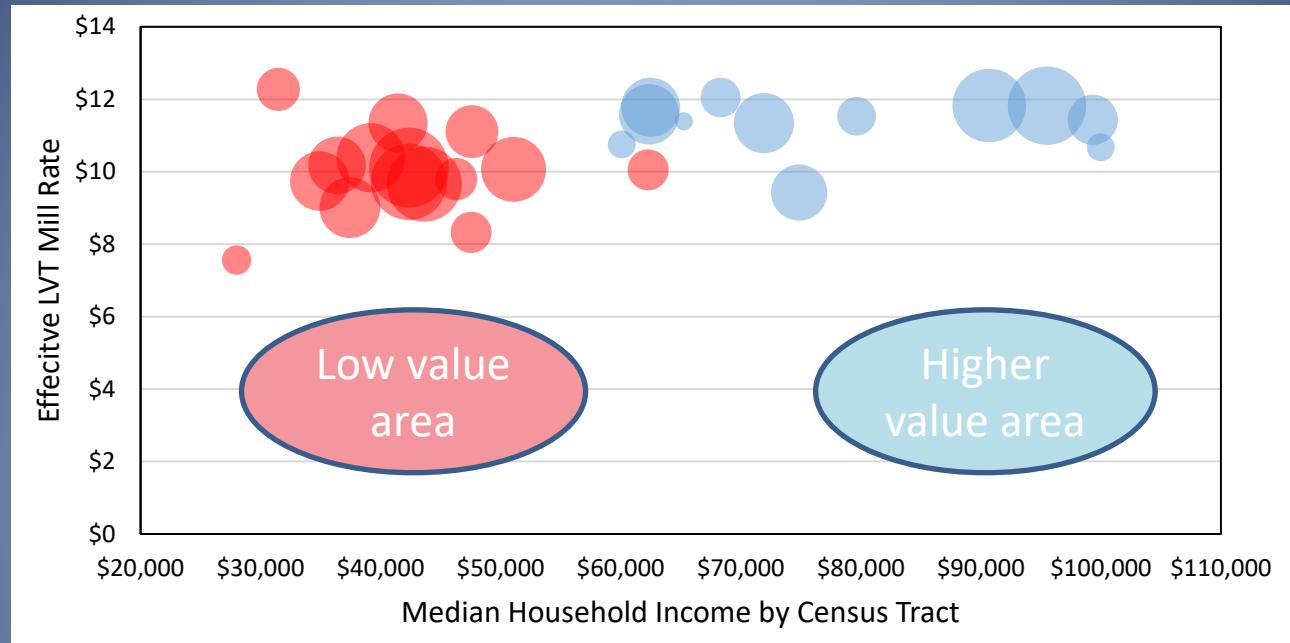
- Multifamily apartments **would decrease** by 28.0%
- Commercial services & offices **would decrease** by 5.0%
- Downtown surface parking lots **would increase** by 92.0%
- Downtown vacant lots **would increase** by 104.6%

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

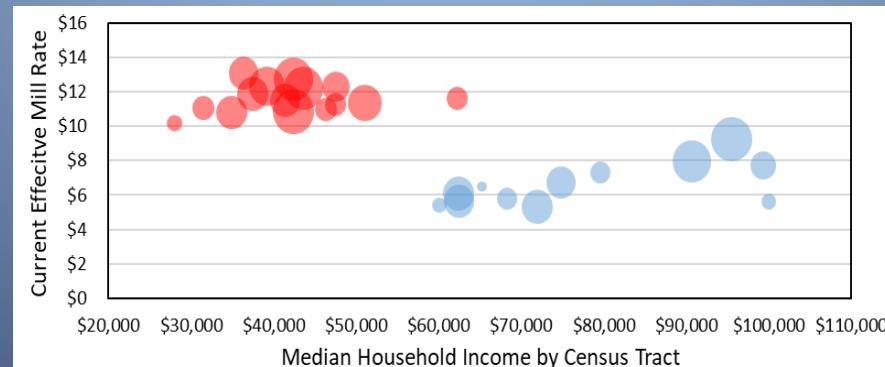
These effects reinforce the principles of progressive taxation and the objectives of the state's Urban Growth Management Act.

*Real Market Value - at a 75% LVT Ratio

LVT results in a more balanced distribution of tax burden



...compared to the tax burden distribution under MAV assessments:



Expected Impacts of a Land Value Tax



Low L-T-V Ratio

Generally....

➤ **Building-intensive uses will experience a**

decreased tax burden



High L-T-V Ratio

➤ **Land-extensive uses will experience an**

increased tax burden

ILLUSTRATION OF TAX INCENTIVE EFFECTS: Inner Northeast Portland

Building intensive uses are
encouraged
by lower tax burdens

Land intensive uses are
discouraged
by higher tax burdens

The following slide pairs consist of photos of selected properties
and the tax shift effects when changing from MAV to RMV to LVT:

PHOTO



TAX SHIFT



Vacant lot



TAX SHIFT

MAV – RMV – 60%LVT – 90%LVT

Vacant lot



REAL MARKET VALUE

Land = \$297,770 Improv. = \$0

L-T-V Ratio: 1.

Year built: 2017

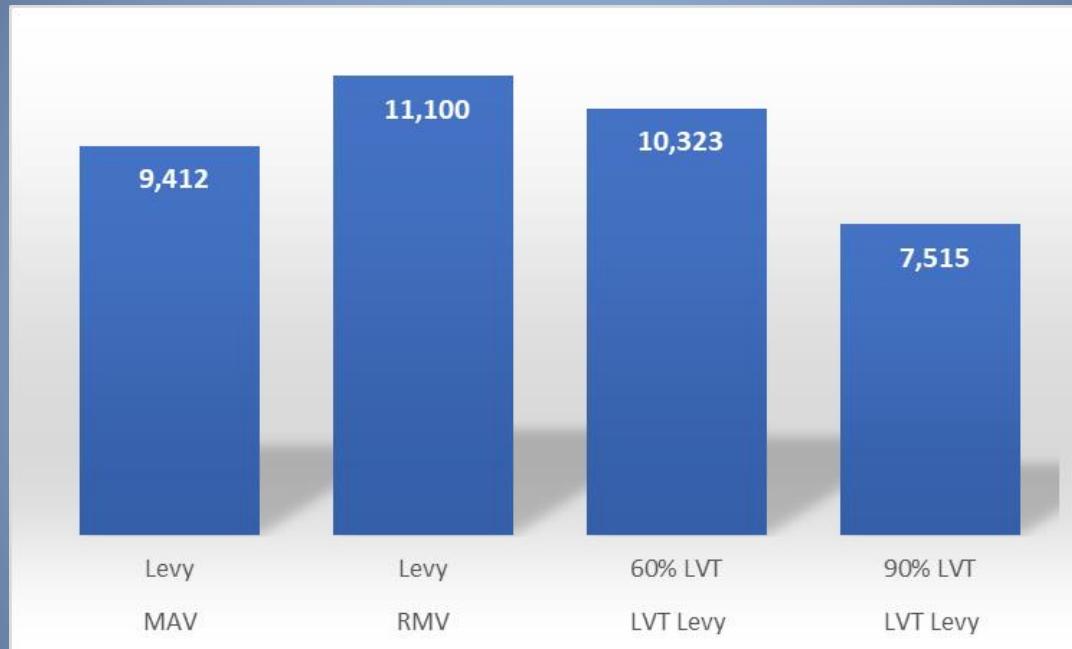
Single family infill



TAX SHIFT

MAV – RMV – 60%LVT – 90%LVT

Single family infill



REAL MARKET VALUE
Land = \$236,500 Improv. = \$807,860
L-T-V Ratio: .23

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,₂₀

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.

