

Reforming Property Taxes in Oregon

A proposal to adopt land value taxation



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Land Value Taxation Objectives

- > Encourage private capital investment
- > Discourage speculative landholding

Expected Land Use Benefits

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



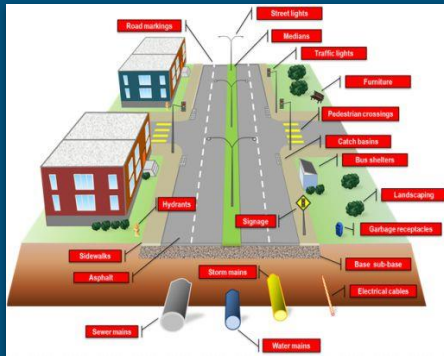
Economic Principles of Land Value Taxation

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



Socially-
created
value

VS

Privately-
created
value



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 

The Results?

Urban Sprawl

- Devouring valuable resource lands
- Creating high household transportation costs

Land Price Inflation

- Incentivizing rent-seeking,
i.e. land speculation and windfalls
- Driving up housing prices

Why is Oregon's tax system so regressive?

Oregon's attempt to limit property taxes in 1993 resulted in unintended consequences:

M-50 replaced RMV with MAV

De-coupling real market value and assessed value has resulted in significant inequities in property tax bills between taxpayers

Gradually shifting tax burden onto lower value residential sites

Equal Rate Taxation

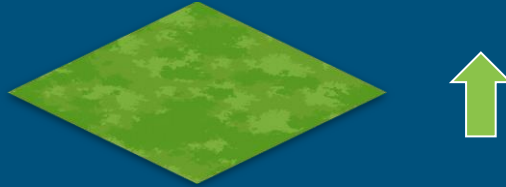
By taxing land and improvement values at the same rate, the bulk of a jurisdiction's tax falls on buildings. The tax falls lightly on land-consuming uses – vacant and underutilized sites.

Discouraging owners to invest in property improvements

Increasing disparity between market & taxable values * Unequal treatment of taxpayers * Continuous revenue shortfalls

Land Value Taxation

LVT taxes land at a higher rate



LVT taxes improvements at a lower rate



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



COMPARISON OF TWO PROPERTY TAX SYSTEMS

Method of Calculating Tax Bills for Individual Properties



Conventional Uniform Ad Valorem Tax

$$\text{Total Value} \times \text{Tax Rate} = \text{Tax Bill}$$




Two-rate Land Value Property Tax

$$\begin{aligned} &\text{Bldg. Value} \times \text{Bldg. Tax Rate} \\ &+ \\ &\text{Land Value} \times \text{Land Tax Rate} \end{aligned} = \text{Tax Bill}$$


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

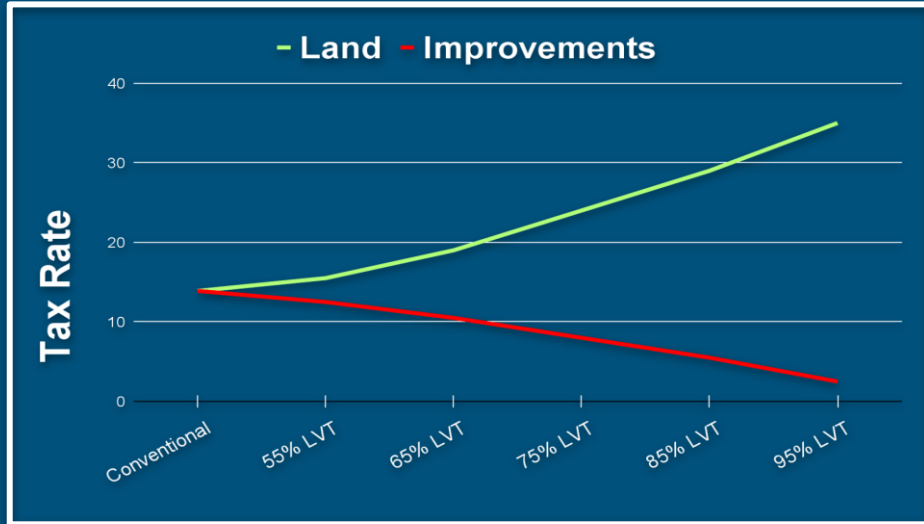
Phase-in Year	Total Tax Rate	LVT Ratio	Land Tax Rate	Building Tax Rate
Year 1	21.00	55%	24.03	19.66
Year 2	(mill rate)	60%	27.14	18.09
Year 3		65%	30.48	16.41
Year 4		70%	34.10	14.61
Year 5		75%	38.01	12.67

Proposed features of model LVT legislation:

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



Why Can't Measure 5 limitations coexist with LVT?



M-5 limits tax rates to \$5 per \$1,000 RMV for school taxes and \$10 per \$1,000 RMV for general government.

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

Conventional Property Tax

Example

Total Tax Rate = 13.89

Two-Rate Property Tax

Land Tax Rate = 26.76

Bldg. Tax Rate = 8.92



This rate exceeds M-5 limits.

Consider Salem City parcels following 6 years of Equal rate MAV assessments:

A simulation model comparison:

Compared to a revenue neutral tax reverting to **RMV assessments...**

Taxes on...

<i>Multifamily apartments</i>	increase by	11.8%
<i>Retail stores & offices</i>	increase by	5.0%
<i>Downtown surface parking lots</i>	decrease by	4.2%
<i>Downtown vacant lots</i>	decrease by	16.1%

These effects created negative incentives and contravened the objectives of Oregon's Urban Growth Management Act.



Now, see the tax shift effects of a change back to RMV assessments with a Land Value Tax*

LVT taxes on Salem...

*75% LVT Ratio, 1998 tax year

<i>Multifamily apartments</i>	decrease by	28.0%
<i>Retail stores & offices</i>	decrease by	5.0%
<i>Downtown surface parking lots</i>	increase by	92.0%
<i>Downtown vacant lots</i>	increase by	104.6%

...compared to a revenue neutral equal rate MAV tax.

The LVT effects are a reversal of incentives, now discouraging land holding and encouraging building investment.



LVT incentivizes building investment



Low L-T-V Ratio



High L-T-V Ratio

Generally...

Building-intensive uses will experience a **decreased** tax burden

Land-intensive uses will experience an **increased** tax burden

Illustration Of Tax Incentive Effects: Inner Northeast Portland



where MAV assessments lag far behind RMV assessments.

MAV:RMV Ratio
= 29%

The following slide pairs consist of photos of selected properties, and the tax shift effects when changing...

from MAV -- to equal rate RMV -- to LVT

Tax year 2018

Northwest Economic Research Center, [Land Value Tax Analysis: Simulating the Effects in Multnomah County](#), June 2019



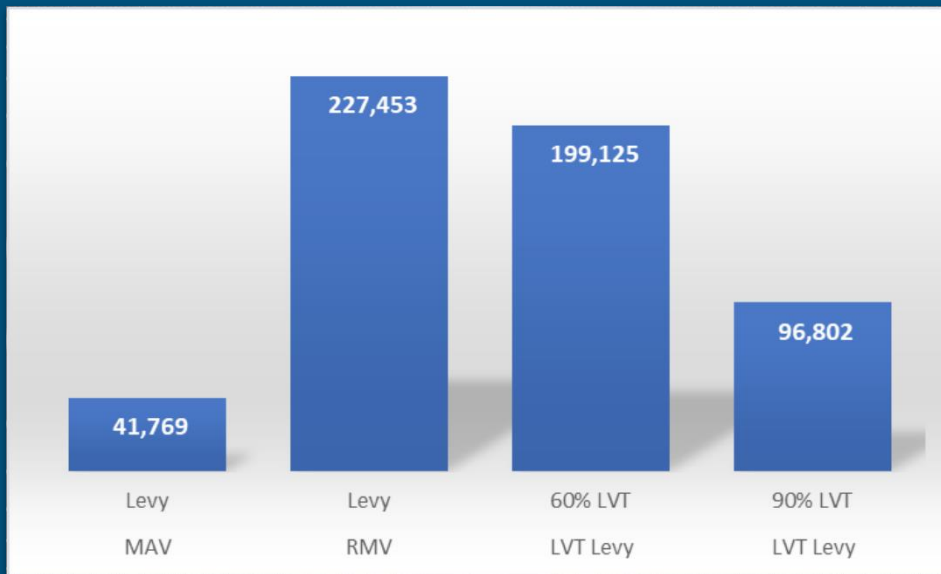
Year built: 2011

Multifamily Mid-Rise



TAX SHIFT

MAV – RMV – 60% LVT – 90% LVT



Multifamily Mid-Rise

Year built: 2011

Real Market Value

Land = \$2,052,670 Improv. = \$19,346,290

L-T-V Ratio: .10

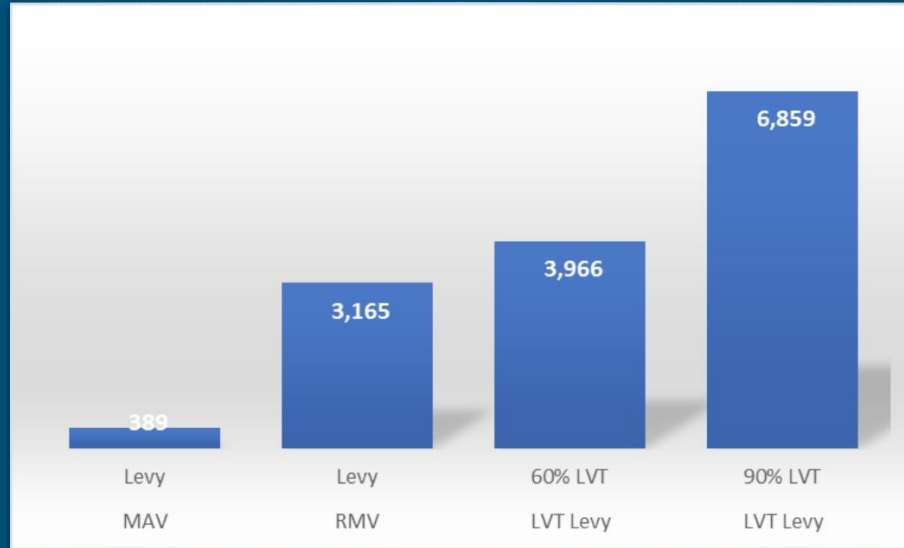


Vacant Lot



TAX SHIFT

MAV – RMV – 60% LVT – 90% LVT



Vacant Lot

Real Market Value

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

L-T-V Ratio: 1



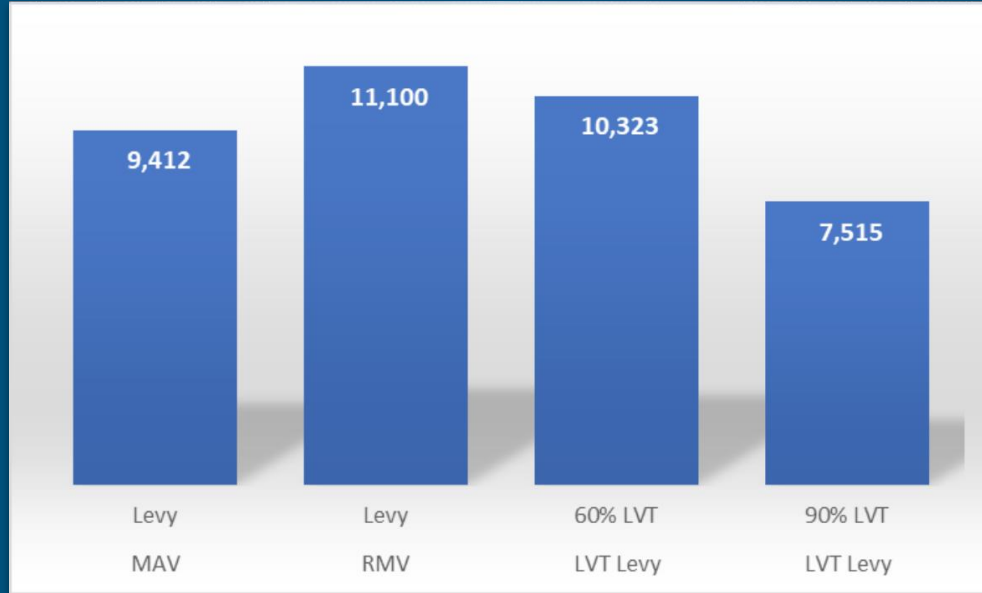
Year built: 2017

Single Family Infill



TAX SHIFT

MAV – RMV – 60% LVT – 90% LVT



Single Family Infill

Year built: 2017

Real Market Value

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



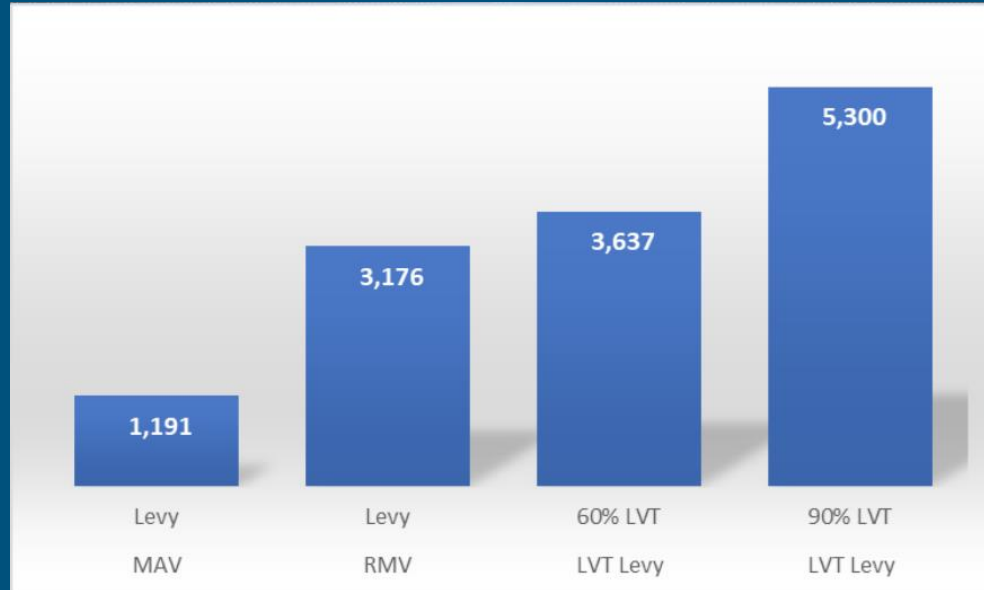
Year built: 1922

Low Value Single Family



TAX SHIFT

MAV – RMV – 60% LVT – 90% LVT



Single Family

Year built: 1922

Real Market Value

Land = \$221,500 Improv. = \$77,370

L-T-V Ratio: .74



Oregon Governor's Task Force Recommends LVT

The **Housing Production Advisory Council** is responsible for proposing an action plan to meet the state's housing production goals

Recommendations of the council's Consolidated Tax Reform Work Group:

Adopt a Land Value Tax

- “Oregon’s property tax system disincentivizes improvements to real property; eliminating the disincentive will lead to the creation of more housing units.”
- “This tax is especially well suited to Oregon where our land use system further constrains the supply of urbanizable land.”
- “We recommend that the legislature draft the referrals for an amendment to the Constitution followed by several statutory changes.”

Are there other U.S. jurisdictions that switched to LVT?

PENNSYLVANIA

allows cities to adopt a split-rate LVT.

Pittsburgh first adopted the split-rate in 1913. Its tax structure has been studied for more than a century. Building construction there leapt ahead of other Rust Belt cities. Taxing land at a rate five times higher than on buildings compelled the owners of vacant sites to construct buildings and to move up the timing of construction. The land tax structure had a significant role in spurring commercial investment in downtown Pittsburgh.

Harrisburg, once one of the most distressed cities in the nation. Since LVT was introduced in 1975 the annual land value tax on all taxable land their city has jumped from bottom to the top group of American cities. Mayor Reed says: “Without hesitation we can commend the importance and benefit of the land value tax policy. It has worked in Harrisburg and in other communities where it has existed.”

Subsequently, 5,200 vacant properties were restored, and taxable businesses rose from 1,908 to 5,900. A number of smaller Pennsylvania towns adopting LVT also saw dramatic increases in building permits issued.



MICHIGAN

Economists are buzzing with interest in LVT, and **Detroit's** mayor, Mike Duggan, is all in. Spearheading the effort, he hopes this reform will incentivize development on blighted property, as taxes increase on vacant land and decrease for those who develop their land. The Duggan administration still hopes to implement the land-value tax in 2025. (August 2023)

Leading economists – including 4 Nobel Laureates - agree Detroit's proposed land tax reform would give a "substantial boost" to the city's economic growth.

COLORADO

Gov. Jared Polis of **Colorado** is pushing the Commission on Property Tax to study potential adoption of LVT: “Taxing land — not the buildings on top of it — has the benefit of reducing land speculation and promoting environmentally sound development; in contrast, taxing buildings discourages investing in your home.” (January 2024)



Key Provisions of a Resolution Authorizing a Local-Option Land Value Tax

- A city or county may adopt the LVT alternative
- Land & Improvements are taxed at differential rates
- LVT is exempt from Measures 5 & 50 limitations
- RMV assessments are restored, replacing MAV
- Amendment is subject to statewide voter approval



The Study bill examines the feasibility of LVT

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

- Examination of tax burden effects changing from taxation under Measures 5 & 50 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 incentive effects in jurisdictions utilizing rural enterprise zones.
- Examine possible tax burden relief measures for hardship cases.



Is there a better way to place a limit on taxes?

“Evidence shows that limits on **assessed values** are a deeply flawed means to counter rising property taxes.”

They create horizontal inequities. Homes of equal value and characteristics can have vastly different property tax burdens.

Owners of older property benefit from low tax payments while occupying their homes, and they gain capital bonuses once they sell their homes.

Alternative Tax Limitation Measures

Capping property tax **revenue growth** effectively limits property tax growth without creating inequity among taxpayers.

Levy limits typically take the form of a maximum allowable annual percentage increase in the property tax levy.

Budgets are set on the expected revenues, the millage rates are calculated to meet the property tax revenue needed to fund the budget.

A more systematic approach is to include a calculation of levy limits unique to each county using the Consumer Price Index (CPI), plus a factor using population growth.

Georgia Association of Property Tax Professionals, Inc.

The only meaningful way to limit property taxes is to control revenue growth.



Tax burden relief measures to accompany a local option LVT

Because some homeowners might be overburdened by a change to RMV.

Measures to be explored:

- Mandated phase-in period, with graduated differential rates
- Property tax deferral, targeted to elderly and low-income homeowners
- Farmstead exemption on assessed land values
- Universal exemption on improvement values – “AXI”
(an alternative system to the split-rate method that produces similar incentive effects, and is more advantageous to lower value residential properties).



What have LVT cities shown us?

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



Thank you!

If you have any questions or comments please feel free to reach out to us via our website or social media pages.

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