

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

How the conventional tax system works under the limitations of Measure 50

Here's a typical tax bill:

VALUES:	LAST YEAR	THIS YEAR
MARKET VALUES:		
LAND	131,750	142,250
STRUCTURE	186,530	206,160
TOTAL RMV VALUE	318,280	348,410
TAXABLE VALUES:		
ASSESSED VALUE	255,200	262,850
PROPERTY TAXES:	\$4,137.84	\$4,693.04

Notice that land & structure are appraised separately. These are **RMV** – real market values

Below is **MAV** – the taxable value, limited by M-50

Land and Structure are two very different components of real property

There is no rational reason to combine them for a total assessment and tax both at the same rate – an equal rate tax.

But that is what the conventional tax system does

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 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/>

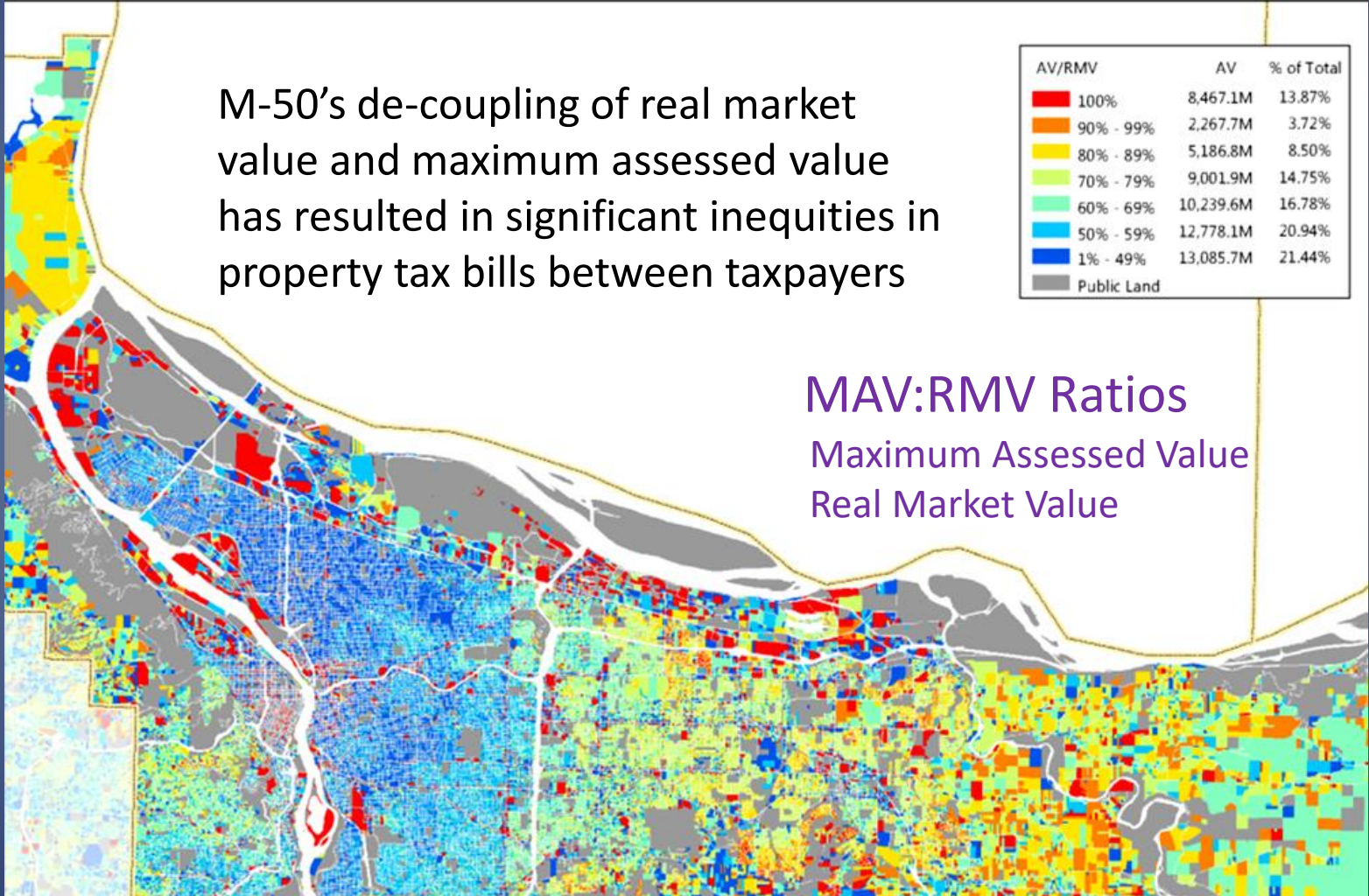
Cumulative Inequities of M-50

Assessed Value Analysis of Multnomah County - 2011

M-50's de-coupling of real market value and maximum assessed value has resulted in significant inequities in property tax bills between taxpayers

AV/RMV	AV	% of Total
100%	8,467.1M	13.87%
90% - 99%	2,267.7M	3.72%
80% - 89%	5,186.8M	8.50%
70% - 79%	9,001.9M	14.75%
60% - 69%	10,239.6M	16.78%
50% - 59%	12,778.1M	20.94%
1% - 49%	13,085.7M	21.44%
Public Land		

MAV:RMV Ratios
Maximum Assessed Value
Real Market Value

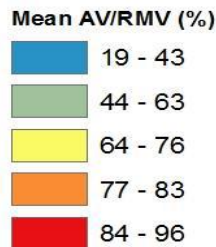


Taxable Values lag behind Real Market Values but unequally, resulting in assessment disparities

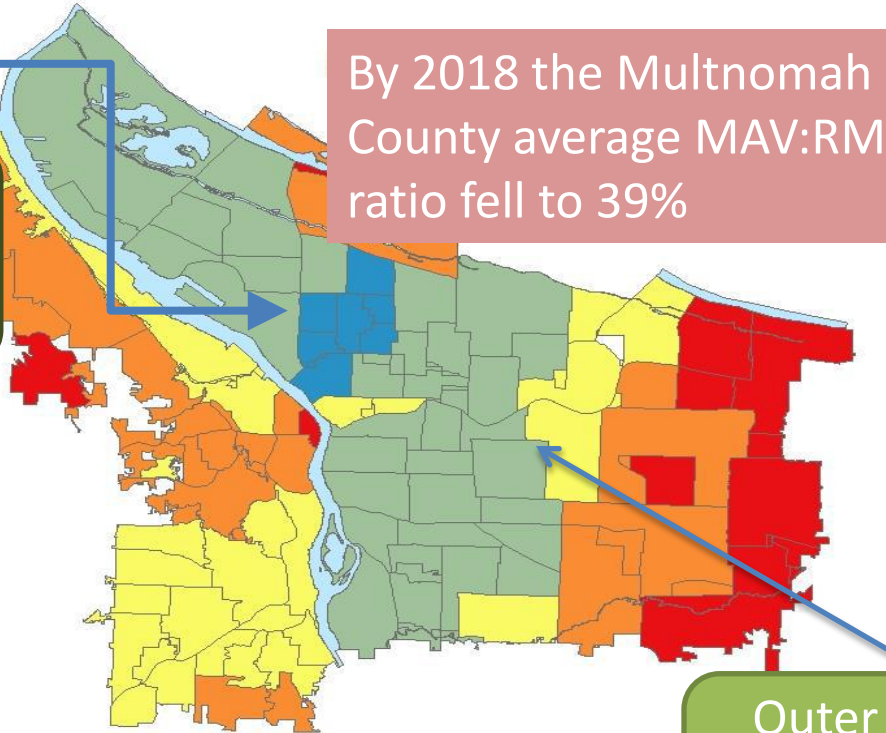
Inner Northeast
Portland MAV: RMV
Ratio: 29%

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

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



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

The "Capitalization Study" by the Northwest Economic Research Center concluded that property owners in areas where RMV rises quickly relative to MAV are enjoying an increase in their property value not derived from structure or neighborhood improvements.

Inner
Northeast
Portland

Instead, this increase is a by-product of Oregon's property tax system separated from the market. The M-50 MAV tax system creates a hidden subsidy for these property owners.

This results in 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

Salem City parcels following 6 years of MAV* assessments

Taxes on ...

- Multifamily apartments **increased** by 11.8%
- Retail stores & offices **increased** by 5.0%
- Downtown surface parking lots **decreased** by 4.2%
- Downtown vacant lots **decreased** by 16.1%

... 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)

The solution: reforming the tax system

Authorize a local option land value tax, exempting adopting jurisdictions from M-5 and M-50

- Replace false MAV assessments with RMV
- Replace the equal rate tax with a two-rate tax
- 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...

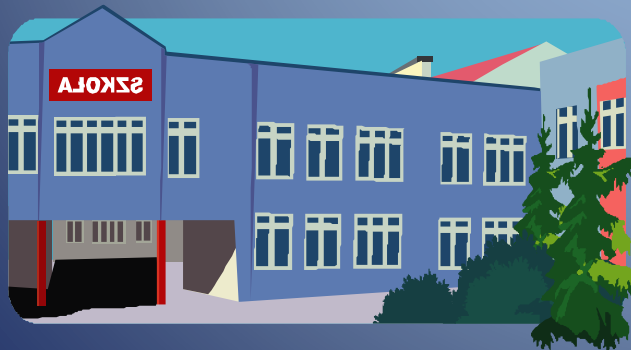
- Public infrastructure
- Public facilities & services
- Area amenities, desirability

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



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

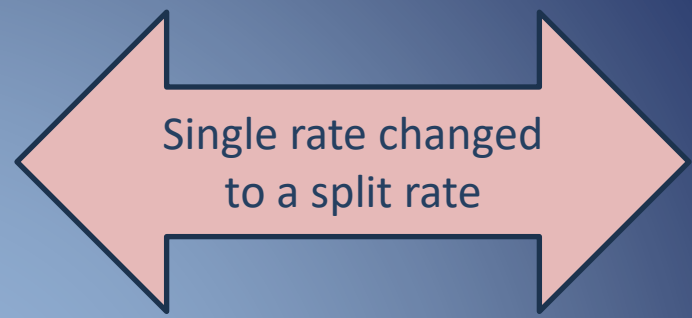
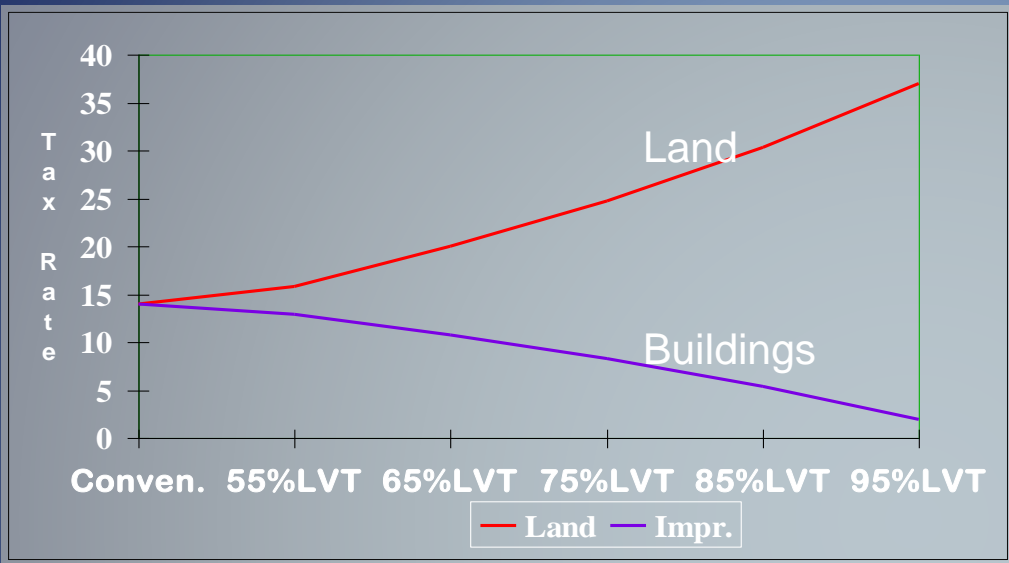
Expected Land Use Effects:

- 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

How a land value tax works during a phase-in period



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

Example:

CONVENTIONAL PROPERTY TAX

Tax Rate = 13.89

TWO-RATE PROPERTY TAX

Land Tax Rate = 26.76

Bldg. Tax Rate = 8.92

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	(RMV mill rate)	65% LVT	30.48	16.41
Yr. 4		70% LVT	34.10	14.61
Yr. 5		75% LVT	38.01	12.67

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

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

LVT taxes on...

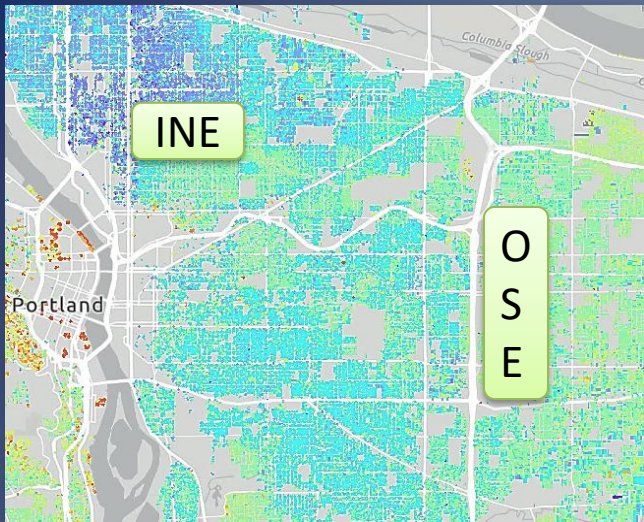
- Multifamily apartments **decrease** by 28.0%
- Commercial services & offices **decrease** by 5.0%
- Downtown surface parking lots **increase** by 92.0%
- Downtown vacant lots **increase** by 104.6%

... 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.

*Real Market Value - at a 75% LVT Ratio

Incentive Effects of LVT in the same 2 Portland neighborhoods

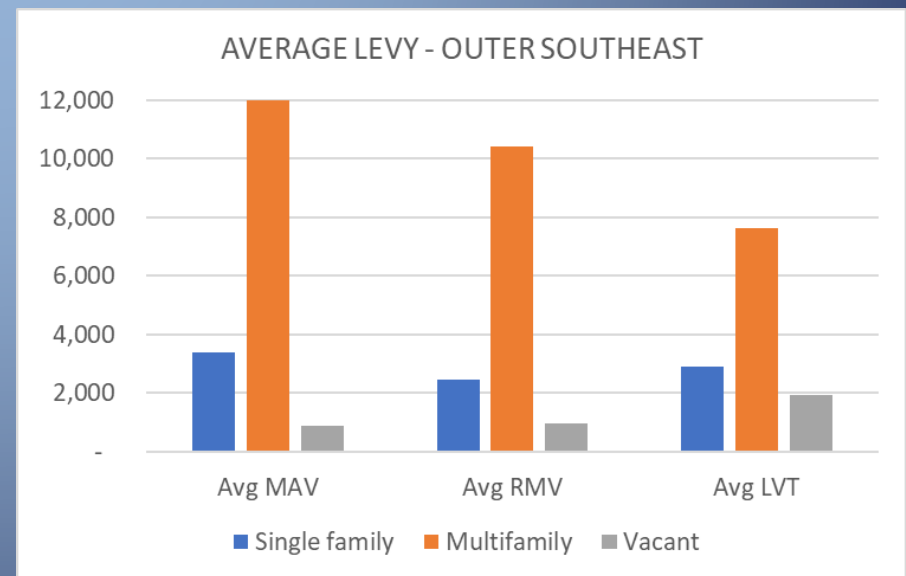
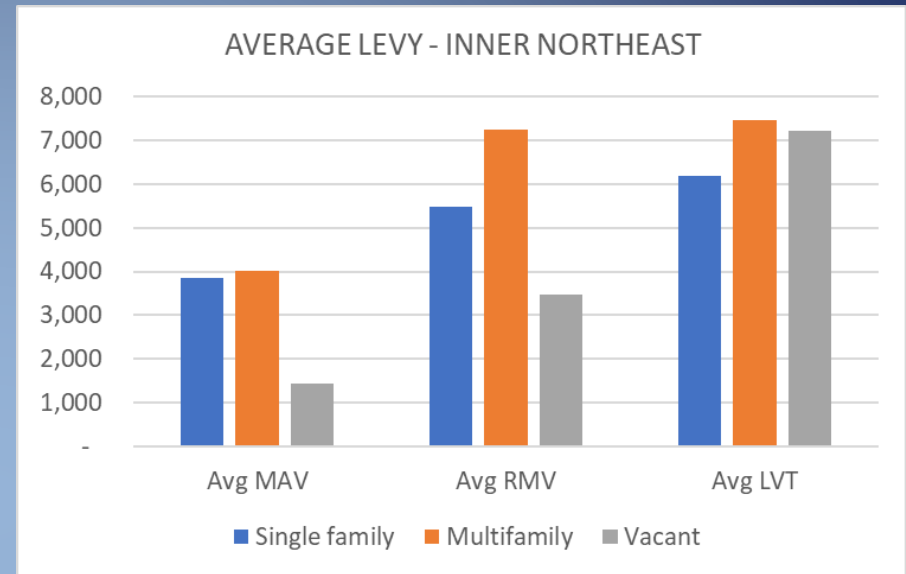


Tax shift is positive in INE when changing to RMV, correcting the horizontal inequity of MAV assessments

Higher density land uses (multifamily* in OSE) experience lower tax burden with LVT

Vacant parcels experience a high level of positive tax shift

* Multifamily consists mostly of 2-4 family unit buildings in INE; larger buildings in OSE



Incentivizing Redevelopment with LVT

Showing the 3 step transition from MAV to RMV to LVT

A SIMULATION MODEL

NE Alberta District

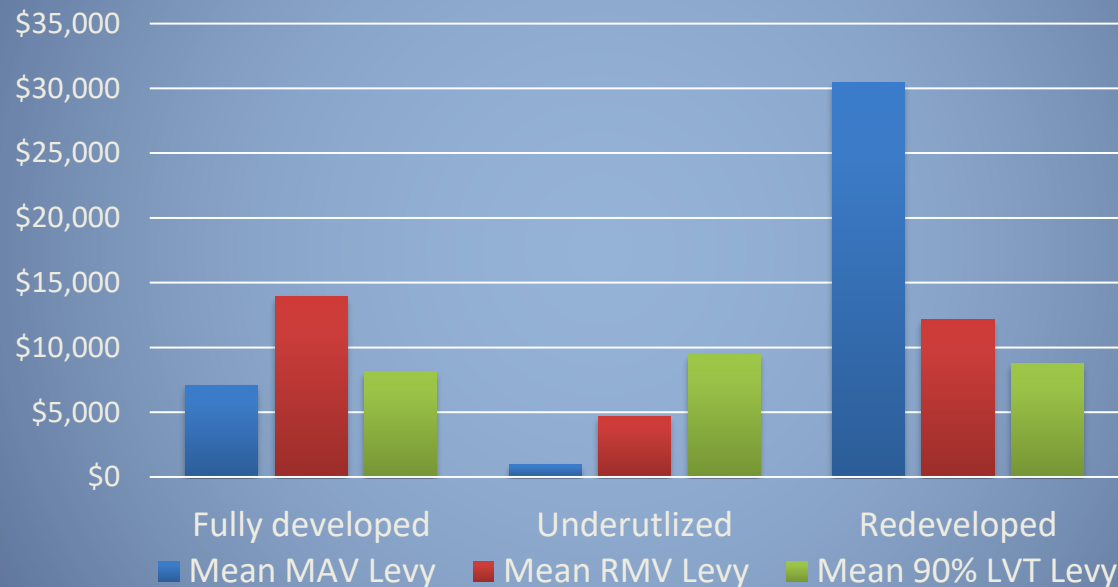
Existing utilization

- remains the same on fully developed parcels

Redevelopment

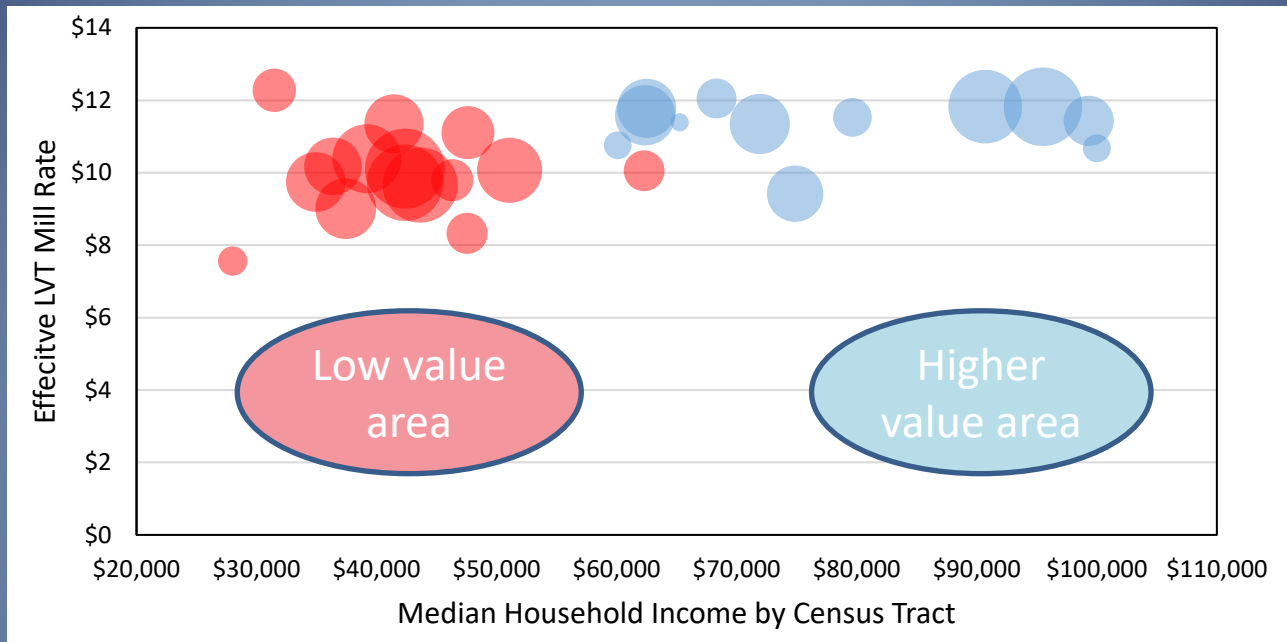
- occurs on underutilized parcels

- is set at full zoned capacity

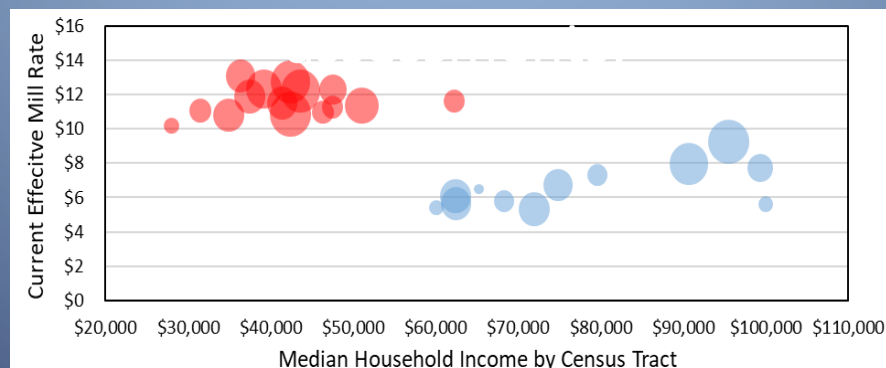


- On vacant and underutilized parcels – tax levies increase during transition
- On the same parcels when redeveloped – tax levies decrease during transition
- If MAV remained in effect, redeveloped parcels would see a steep rise in taxes

LVT results in a more balanced distribution of tax burden



...compared to the tax burden distribution under MAV



The Price Dampening Effect of a Land Value Tax

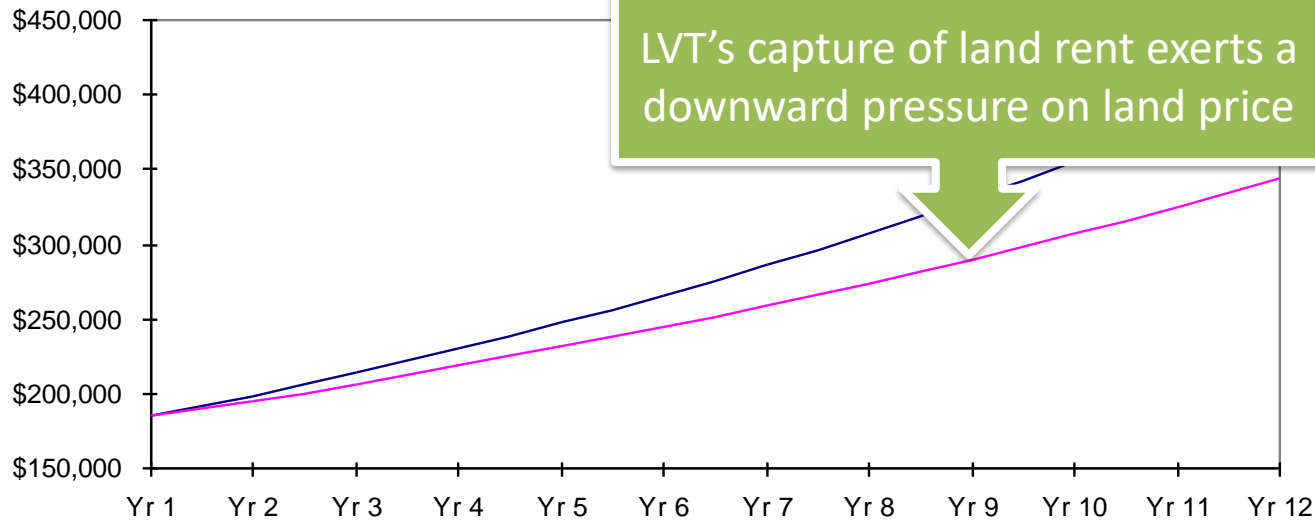
Tax capitalization in reverse:

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

This effect is magnified on underutilized properties where land-to-total values are high



This effect is offset on high density development where land-to-total values are low



Over time, housing will become more affordable

Converting a problem into a win-win solution

The change to LVT with RMV assessments may overburden some homeowners, especially in neighborhood subdivisions with large lots.

Existing conditions that can be leveraged to solve the problem:

- 1) a surplus of large lots with modest houses;
- 2) the need for income generation to strengthen homeowners' financial solvency;
- 3) the need for more low-income housing units for new renters.

22% of single-family parcels in OSE could see taxes shift upward because large lot size increases the land / building ratio

40% of OSE households are cost-burdened

A logical solution is to build **accessory dwelling units** on large lots

Average lot area available for ADU construction on single-family sites:

Inner Northeast:

717
sq. ft.

Outer Southeast:

1,377
sq. ft.

Adding **Accessory Dwelling Units** can help solve financial challenges for both existing homeowners and renters

Reverse the negative consequence by investing in building upgrades or new construction



This lowers the Land-to-Building value ratio, receiving favorable tax treatment under LVT

89 percent of all developed single-family parcels in Outer Southeast are eligible for building an ADU of standard size or greater...



Expected Impacts of a Land Value Tax



Low Land to Total Value Ratio



High Land to Total Value Ratio

Generally.....

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

***Decreased* tax burden**

➤ **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

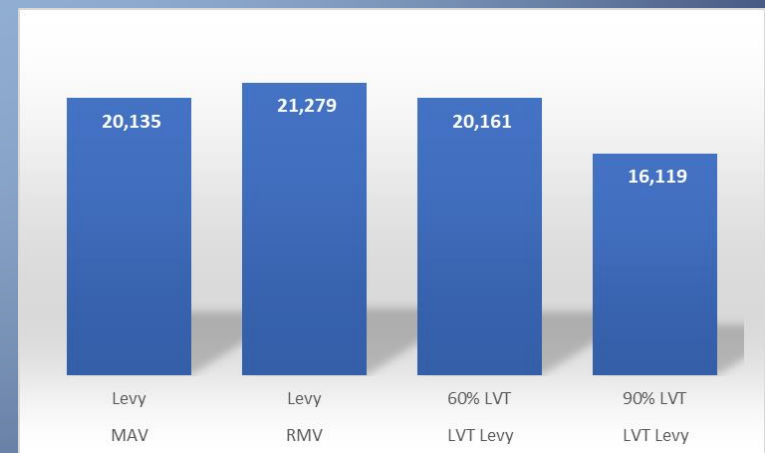
Land intensive uses are
discouraged
by higher tax burdens

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



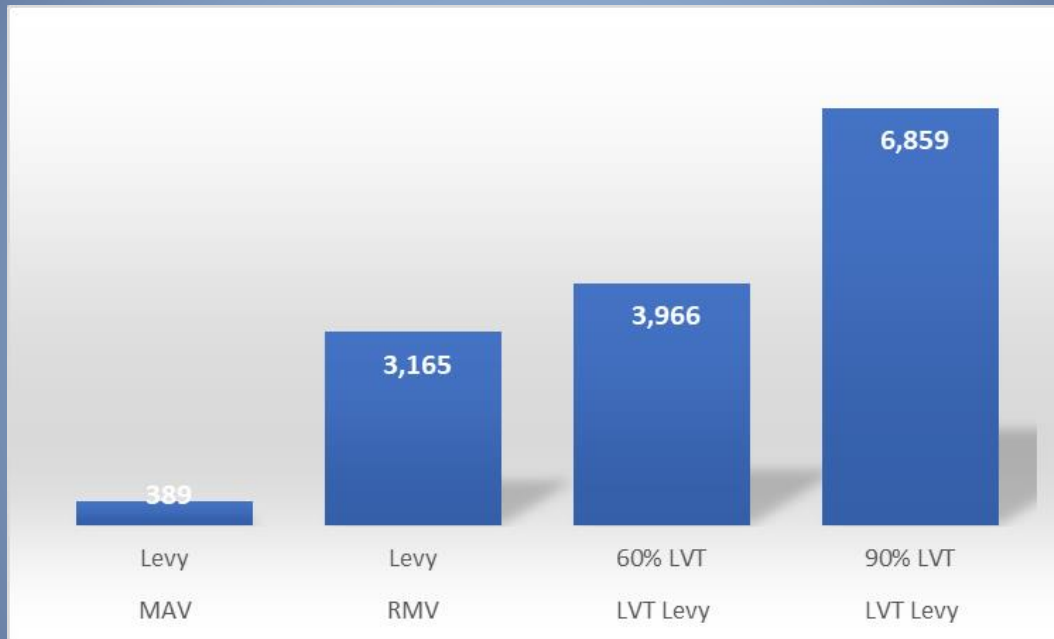
Vacant lot



TAX SHIFT

MAV – RMV – 60%LVT – 90%LVT

Vacant lot



REAL MARKET VALUE

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

L-T-V Ratio: 1.

N Williams Corridor

Year built: 2011

Multifamily mid-rise

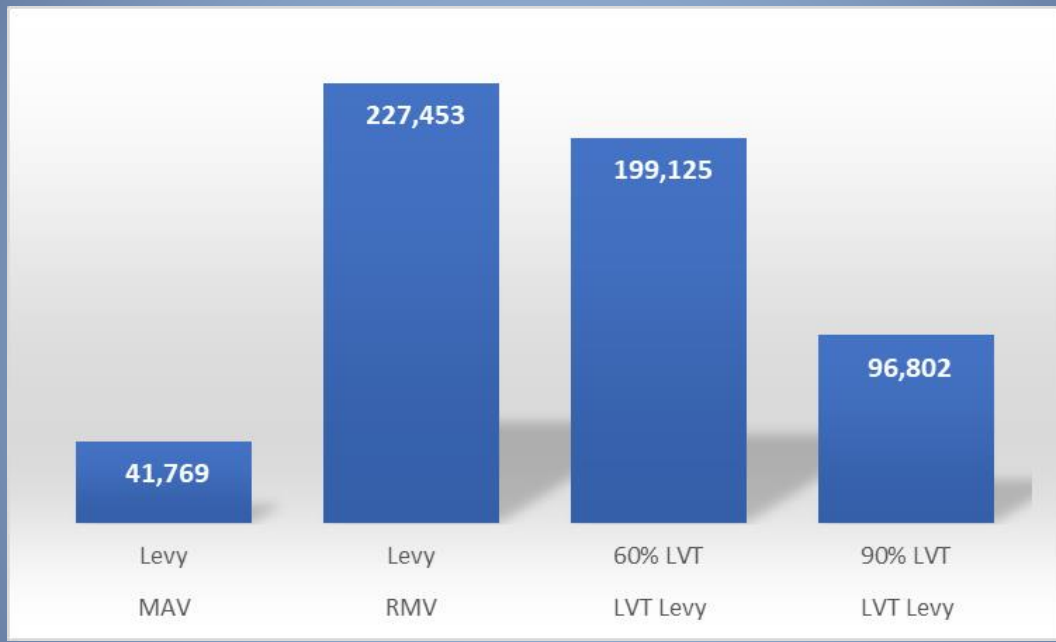


TAX SHIFT

MAV – RMV – 60%LVT – 90%LVT

N Williams Corridor

Multifamily high-rise



REAL MARKET VALUE
Land = \$2,052,670 Improv. = \$19,346,290
L-T-V Ratio: .10

#1

Year built: 2017

Single family infill

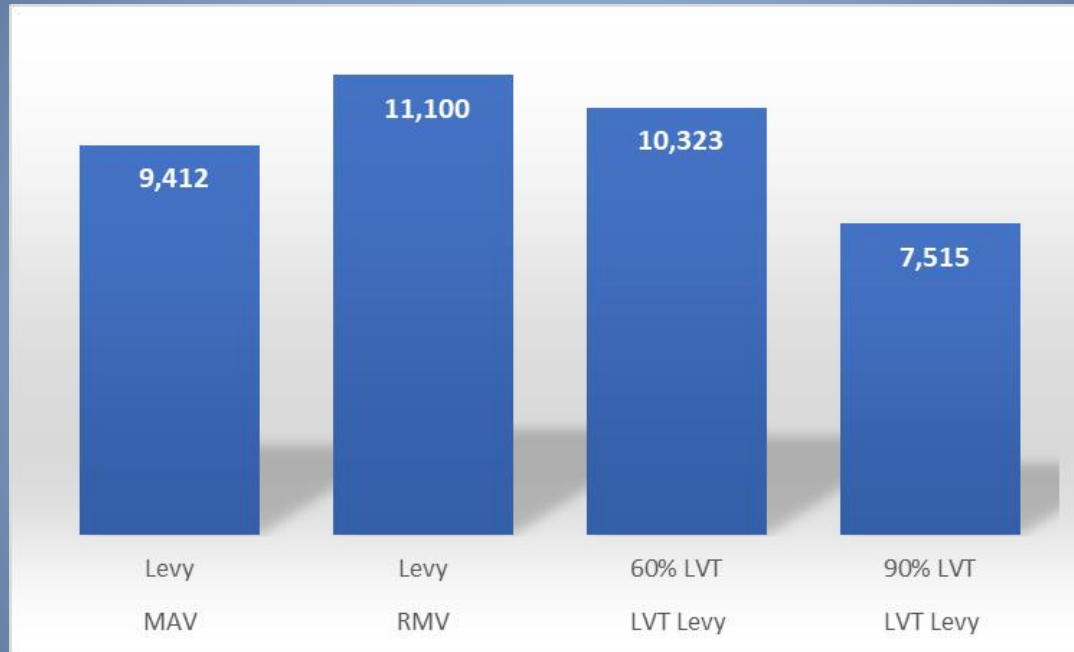


TAX SHIFT

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

Do I pay more taxes with LVT?

- 1) County-wide tax revenue remains the same... revenue neutral; tax levies vary by individual parcel according to the L-T-V Ratio.
- 2) The economic principle of LVT: Value belongs to the creator of that value.
Land value belongs to the community / Building value belongs to the owner
Local government has the right and obligation to appropriate land values, while property owners have the right to retain their interest in building value.
- 3) Land value is not an investment (using private capital); it is speculative – an unearned increment, independent of owner's influence.
- 4) Therefore, accumulated “equity” from increasing land value is capturable through taxation. The annual increase is termed **Land Rent**.

LVT is designed to capture land rent and relinquish building values

However, the 2-rate LVT doesn't capture all of a property's land rent. See the following examples: (90% LVT, 6% ann. land value growth rate)

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%

Conclusion

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

- Encourage highest & best use of land
- Provide a more equitable tax structure
- Incentivize structure upgrading
- Incentivize development of underutilized sites
- 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 cases₃₃

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.

