

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
- Intensify land development
- Discourage building deterioration
- Encourage infill development
- Discourage urban sprawl
- Restrain rising residential lot prices

THE PRINCIPLE OF ECONOMIC JUSTICE:

Value accrues to the creator of value

FACTORS OF PRODUCTION:

RETURN:

Productive enterprise:

LABOR



WAGES

Employment

CAPITAL



INTEREST

Economic growth

LAND



RENT

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



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

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.

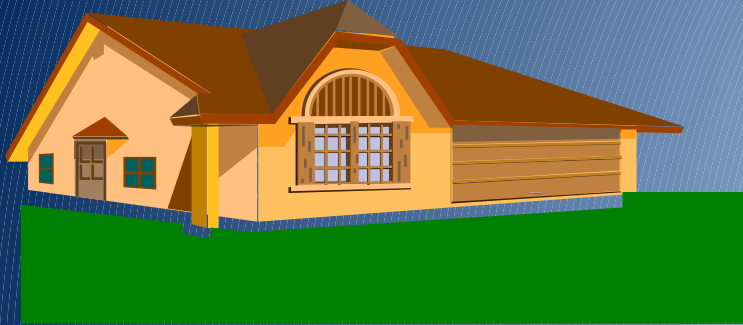


LVT taxes land assessments
at a higher rate.

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

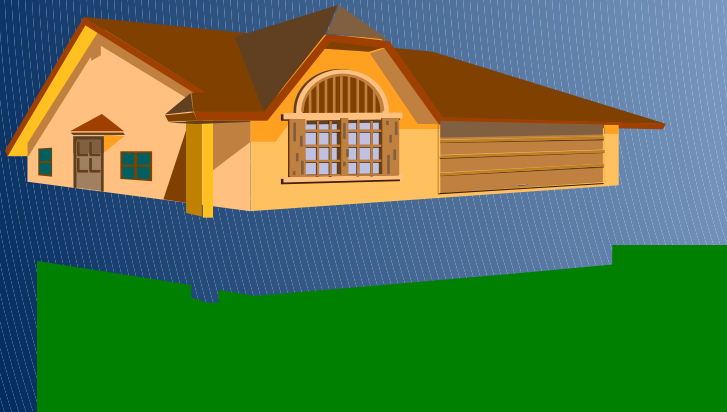
COMPARISON OF TWO PROPERTY TAX SYSTEMS

Method of Calculating Tax Bills for Individual Properties



CONVENTIONAL UNIFORM AD VALOREM TAX

$$\begin{array}{c} \text{Total} \\ \text{Value} \end{array} \times \begin{array}{c} \text{Tax} \\ \text{Rate} \end{array} = \begin{array}{c} \text{Stack of Money} \\ \text{Tax Bill} \end{array}$$



TWO-RATE LAND VALUE PROPERTY TAX

$$\begin{array}{c} \text{Bldg.} \\ \text{Value} \end{array} \times \begin{array}{c} \text{Bldg.} \\ \text{Tax} \\ \text{Rate} \end{array} + \begin{array}{c} \text{Land} \\ \text{Value} \end{array} \times \begin{array}{c} \text{Land} \\ \text{Tax} \\ \text{Rate} \end{array} = \begin{array}{c} \text{Stack of Money} \\ \text{Tax Bill} \end{array}$$

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

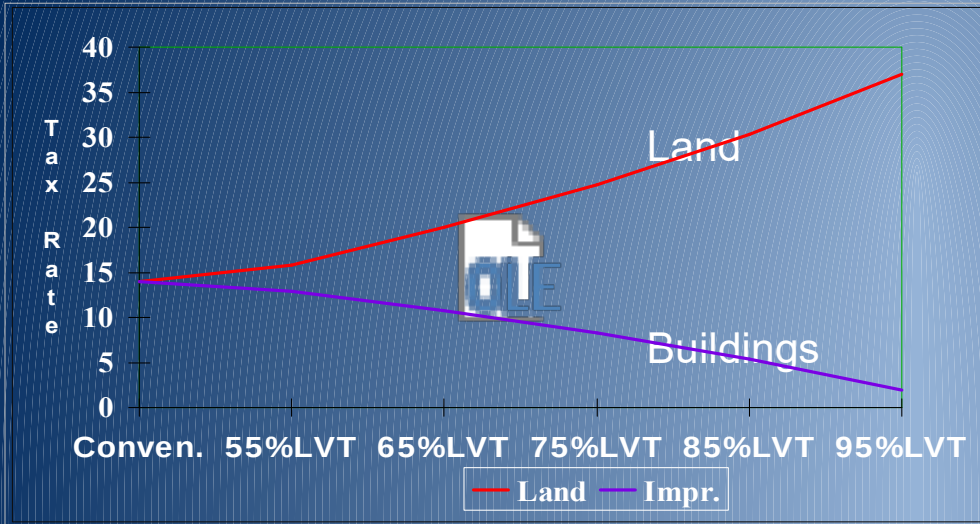
Example of an LVT tax rate structure during a phase-in period

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

Tax Rate = 13.89

TWO-RATE PROPERTY TAX

Land Tax Rate = 26.76

Bldg. Tax Rate = 8.92



This rate exceeds M-5 limits.

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 ...

- 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)

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

LVT taxes on Salem...

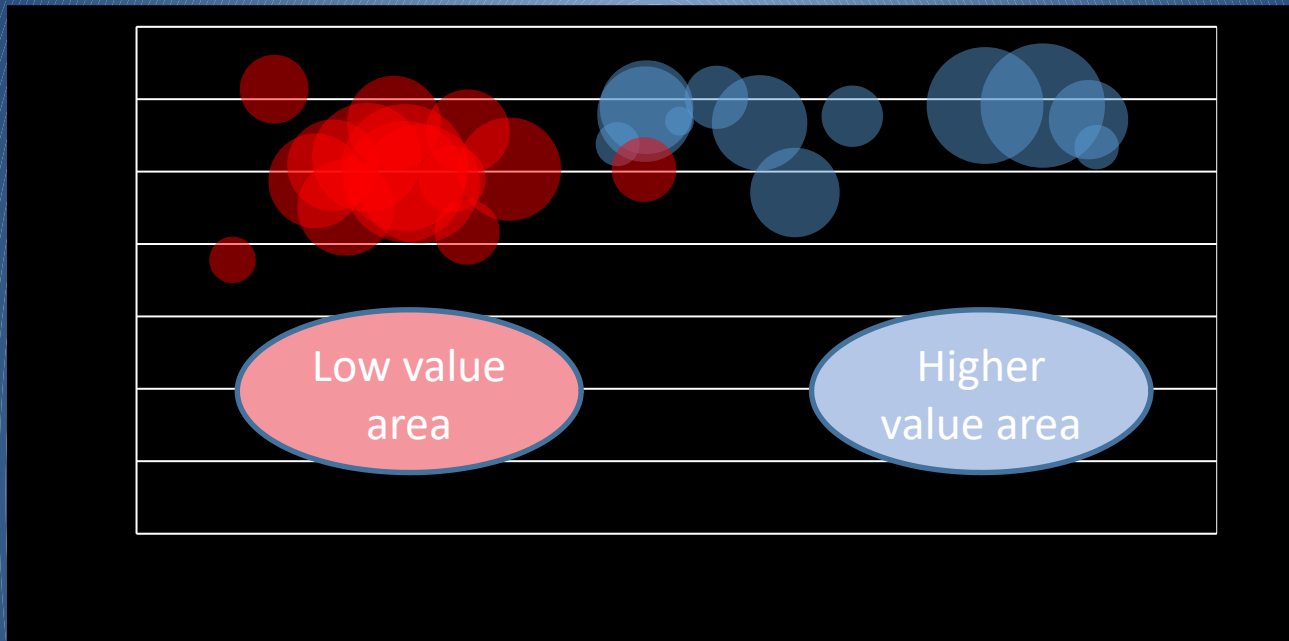
- Multifamily apartments would decrease by 28.0%
- Commercial services & offices would decrease by 5.0%
- Downtown surface parking lots would increase by 92.0%
- Downtown vacant lots would increase by 104.6%

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

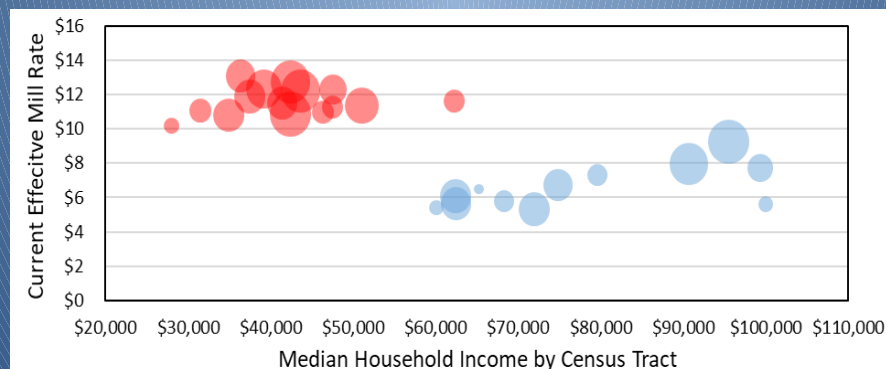
These effects reinforce the principles of progressive taxation and the objectives of the state's Urban Growth Management Act.

*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



High L-T-V 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

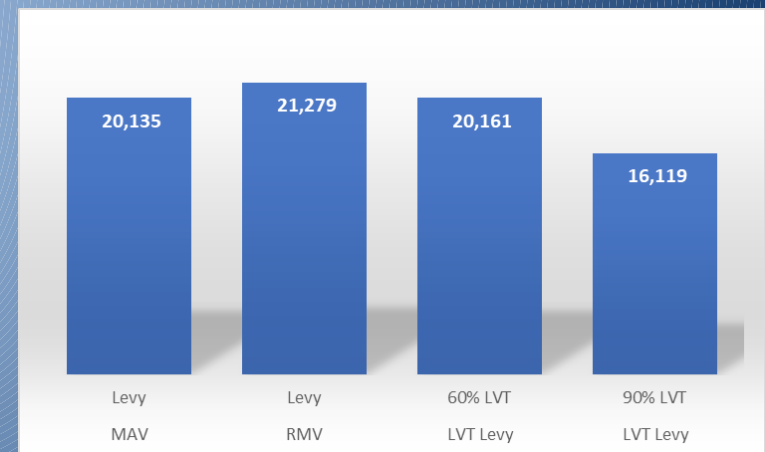
Land intensive uses are
discouraged
by higher tax burdens

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



Year built: 2011

Multifamily mid-rise

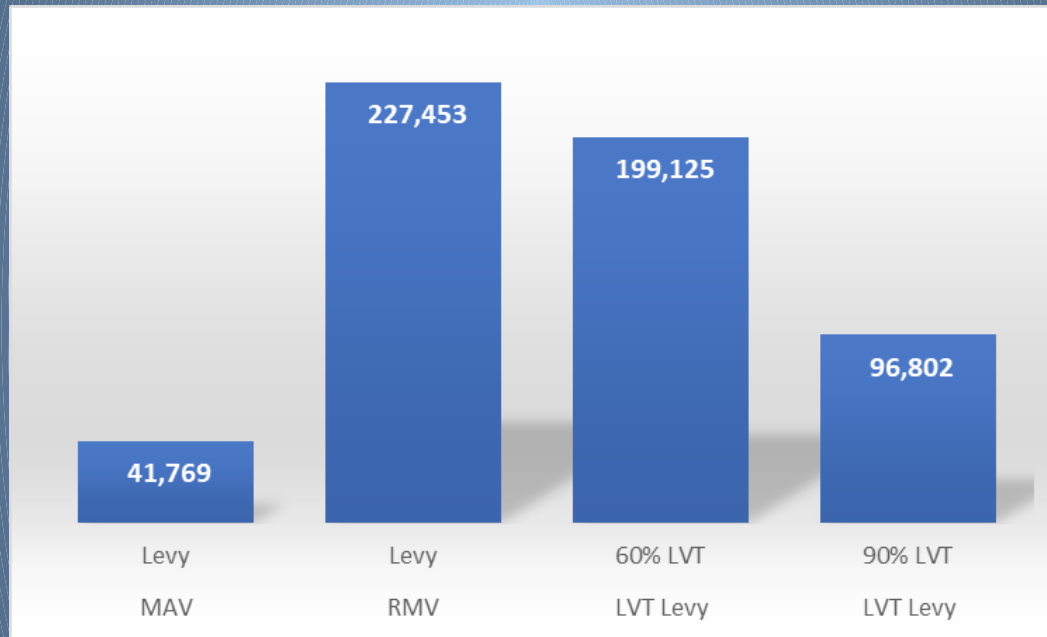


TAX SHIFT

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

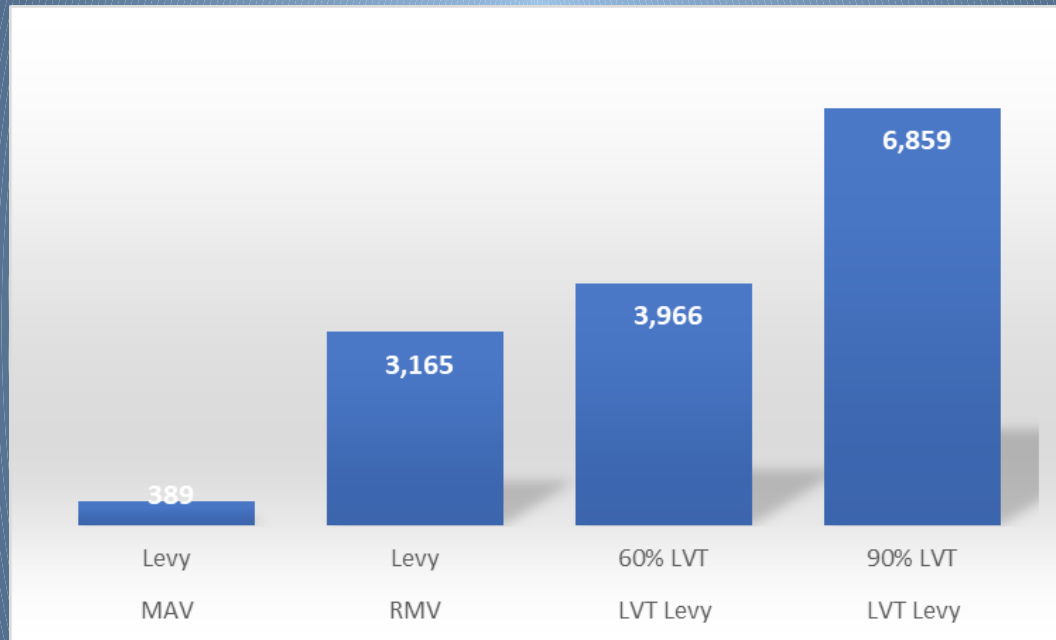
Vacant lot



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

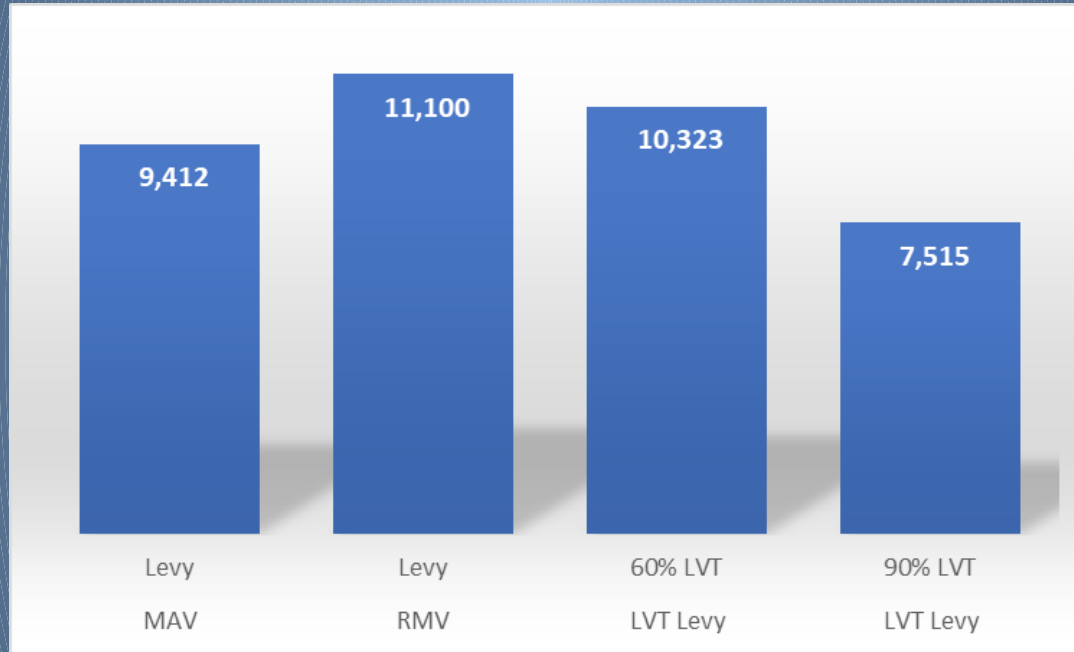


TAX SHIFT

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

Single family

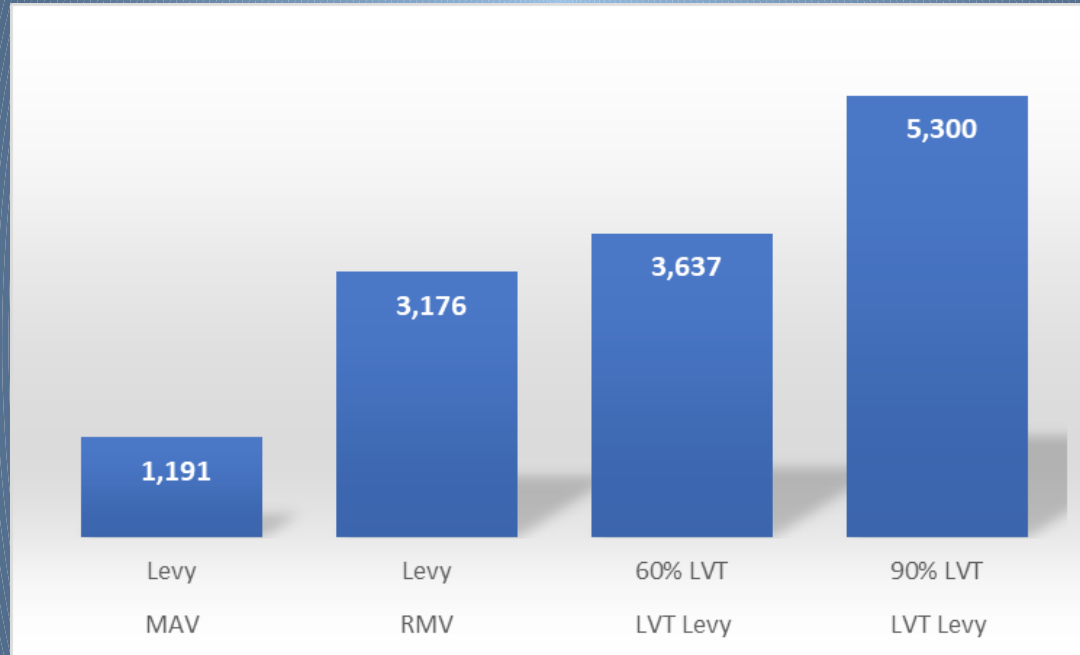


TAX SHIFT

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

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 M5 & M50 limitations
- RMV assessments are restored, replacing MAV
- Amendment is subject to state-wide voter approval

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 multiple taxing districts.
- Examine possible tax burden relief measures for hardship cases.

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.

Common Ground Oregon-Washington
www.commongroundorwa.org

