



## LVT Talking Points

- Since voter approval of Oregon's Measure 50, the measure's limitation on the annual growth rate of property taxes has created large horizontal inequities. Homes of equal value and characteristics can have vastly different property tax burdens. When general home prices continue to rise, horizontal inequities become more acute over time.
- The maximum assessed value (MAV) under Measure 50 separated taxable value from real market value (RMV). Since M-50 took effect in 1995, the gap between artificially false assessments (MAV) and true values has increased dramatically in some urban neighborhoods, creating housing market distortions. Measure 50 caused an erosion of the tax base, inhibiting the ability of local governments to respond to changing economic, demographic, and institutional conditions.
- If two houses are similar in all ways except for their property tax payments their sale prices differ as a result of tax capitalization. Differences in property tax payments are having a significant effect on sale prices. Houses that have experienced large growth in value since the inception of the current M-50 system tend to be paying less as a percentage of their homes' value in taxes, which is capitalized into a higher sale price. This disproportionately benefits property owners who can afford to buy in areas with faster increases in property values.
- Under the current method of taxing land and improvement assessments at the same rate, the bulk of tax revenue typically comes from building investments. The tax falls lightly on land-consuming uses where building investments are minimal and lot coverage is low. There are no financial reasons not to use land wastefully. The aggregate effect is to propel urban growth horizontally, adding to urban sprawl.
- Some shrewd investors capitalize on rising land markets by purchasing properties in rising value locations, letting existing buildings deteriorate while holding onto the land. Oregon's present property tax system actually encourages property neglect. Speculative owners know that if they did repair their properties, their tax bills would increase. They in effect receive a tax subsidy – an inducement to speculate on land, waiting for windfall gains. Cities have had little success in using code enforcement instead of tax incentives to change behavior.
- LVT offers a disincentive to speculate on land. The holding of underutilized sites in central locations or suburbanizing areas creates an artificial scarcity of developable land. These withheld lots can yield lucrative windfalls for owners who later resell to developers who in turn pass on the higher land costs to occupants. The capture of land value could raise holding costs to a level at which owners will seek a better return on their investment by either selling their properties to developers sooner or making building improvements themselves.

- Under a 2-rate land value tax, the tax levy on vacant and neglected sites would be considerably higher than under the present system. On the other hand, if quality upgrades were made to single family and multifamily housing units, taxes would be lower. A lower tax rate on improvement assessments encourages owners to repair or replace obsolete buildings.
- A reform of the state’s property tax system would shift the tax burden off useful economic enterprise onto land resource consumption. Instead of taxing capital investments in building improvements, collecting land rent will conserve natural resources, eliminate real estate booms and busts, and invigorate the local economy without resorting to wasteful bailouts and continual housing subsidies. Taxing land value at a higher rate tells owners to conserve land and to use it more wisely.
- A change to true market assessments and land-based taxation is shown to be less punitive to owners who undertake substantial capital investments—putting their land into production or using land more intensively. LVT produces upward tax shifts associated with vacant and underutilized sites, especially those in central locations. The greatest tax benefits accrue to multifamily and smaller lot residential properties, as well as centrally located fully developed sites.
- A heavy tax on land values and light tax on improvement values shifts the tax burden onto land-extensive uses associated with urban sprawl, such as parking lots and commercial strips. Coincidental with the reformed 2-rate tax system would be a gradual trend towards infill development, as owners realize the tax benefits of building more intensively on underutilized centrally located sites. Tax burden is reduced on compact uses such as apartments and office buildings. Simultaneously, there would be a diminishing demand for sites at the urban fringe where urban sprawl proliferates.
- Rather than endless subsidies, a more effective way to solve the housing affordability crisis is to enable the housing market to produce housing at all income levels – by bringing down the most rapidly growing cost component of housing production, land prices. The tax increase on underutilized residential lots having a high ratio of land-to-building value is capitalized into lower resale prices, making housing more affordable over time.
- A revenue-neutral land value tax will restore fairness and efficiency to the tax system. Because the supply of land is fixed, an increase in the tax rate on land will augment revenues without distorting investment incentives.
- Many experts consider a land value tax to be the most progressive of all taxes. There are roughly 300 empirical studies that demonstrate the positive incentives of LVT. About a dozen Nobel economists attest to its record of providing incentives for urban revitalization as well as its ability to raise sufficient, reliable, broad-based revenues. It is relatively easy to administer, is fair, and cannot be “sheltered.”