

# Reforming Property Taxes in Oregon

A proposal to adopt land value taxation



**Common  
Ground  
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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 land prices



# 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. Above is **RMV** – real market

Below is **MAV** – the maximum 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*

# Economic Principles of Land Value Taxation

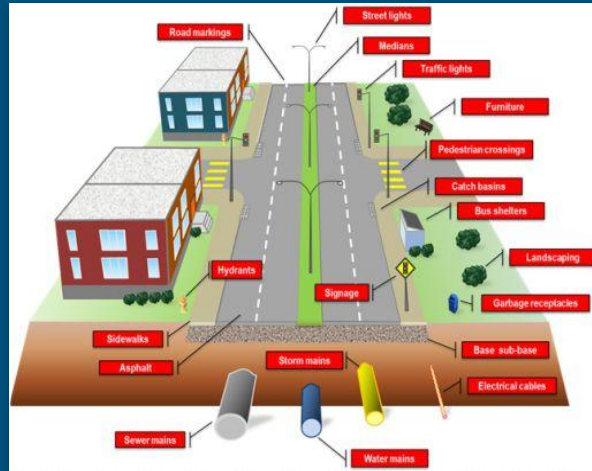
*Land value belongs to the community*

*Building value belongs to the owner*

## Land Value

Represents the presence of...

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



## Socially-created value

Local government has the right and obligation to appropriate land values, while property owners have the right to retain their interest in building value.

## Improvement Value

Represents owners' capital investment in the structure

## Privately-created value



# Why does Oregon's property tax system need reform?

The passage of Measures 5 and 50 in 1997 drastically changed the way property taxes were assessed in Oregon.

- Measure 5 Limit: Maximum Allowable Tax = \$15 per thousand of RMV
- Measure 50 Limit: Maximum Growth in MAV = 3% per year

The result: increasing disparity between true market and taxable values

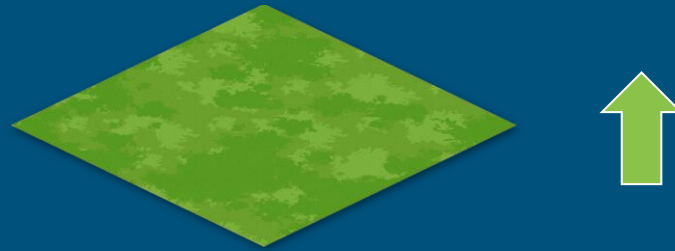
## What are the cumulative effects?

- continuous revenue shortfalls
- unequal tax treatment of taxpayers
- land speculation and soaring housing prices



# Land Value Taxation ...

*taxes land at a higher rate*



*taxes improvements at a lower rate*



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



# The current property tax system does 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

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

A simulation model compares two systems:

Compared to a revenue neutral tax using RMV assessments  
MAV taxes on...

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

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



# 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 taxable value has resulted in significant inequities in property tax bills between taxpayers.

### The result:

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.

### The result:

Discouraging owners to invest in property improvements

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

## The two-rate differential can vary by degree

The percentage of total tax rate applied to RMV land assessments is the 'LVT Ratio'

### Example of an LVT tax rate structure

<b>Total Rate:</b>	<b>LVT Ratio:</b>	<b>Land Tax Rate:</b>	<b>Building Tax Rate:</b>
21.00*	55% LVT	24.03	19.66
	60% LVT	27.14	18.09
	65% LVT	30.48	16.41
	70% LVT	34.10	14.61
	75% LVT	38.01	12.67

(\* RMV mill rate, all taxing districts combined)

The greater the differential, the greater the incentive

## Four steps in the transition to LVT

1. Phase out MAV / Phase in RMV
2. Phase in a graduated split rate LVT
3. Strengthen state assessment standards
4. Property tax deferral to alleviate hardship cases

### Proposed features expressed in LVT legislation:

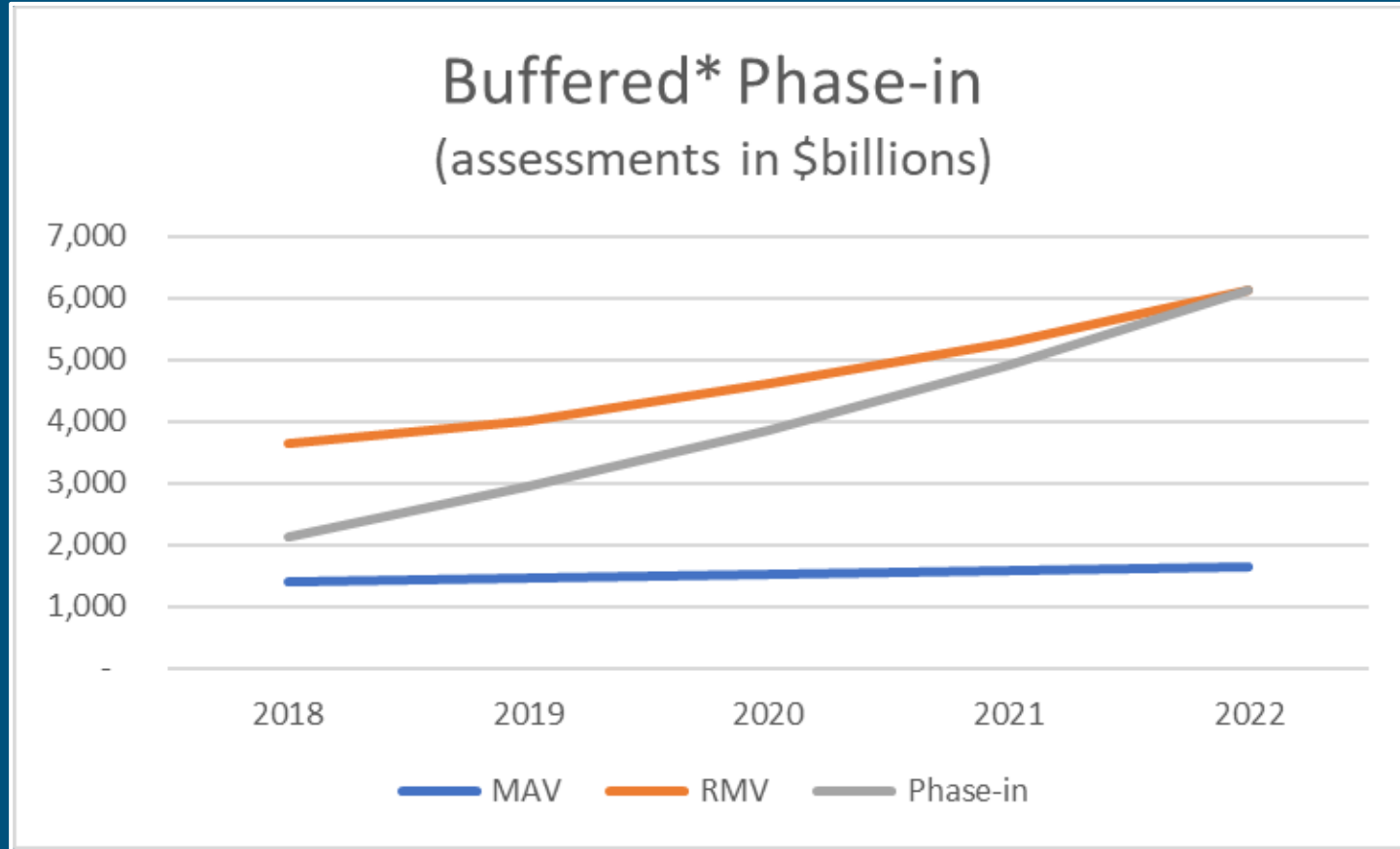
- Local option
- Uniform application of tax rates
- Revenue neutral during transition period

# 1. Phase-out of MAV / Phase-in of RMV

## Closing the assessment gap

MAV increases only 3 % per year.

The trend rate of annual increase in RMV is higher

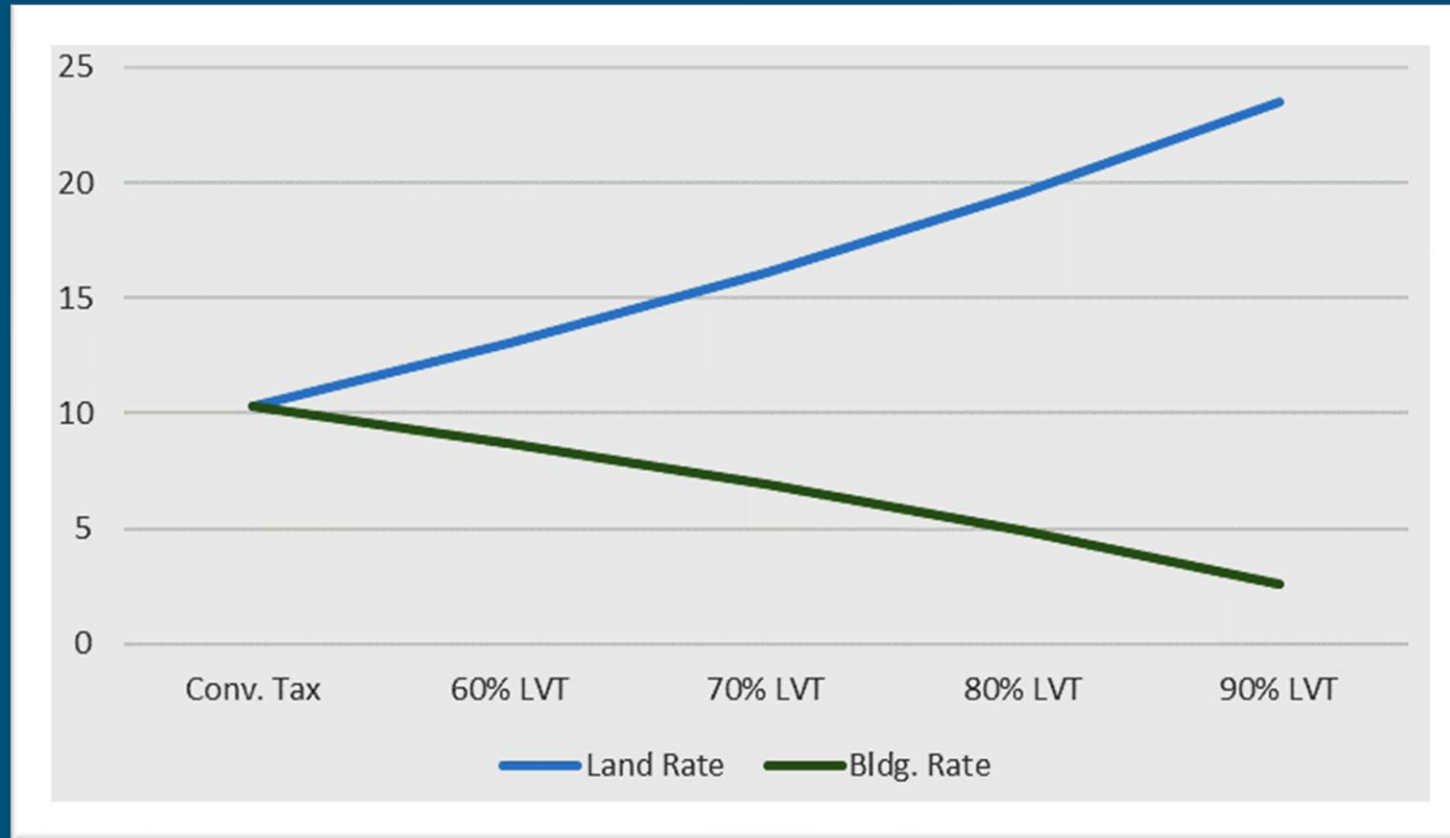


A percentage increase in MAV assessments is adjusted annually to reach RMV within a target year

\*this example accounts for a moving RMV target, over a 5-year period

## 2. Phase-in of graduated split rates

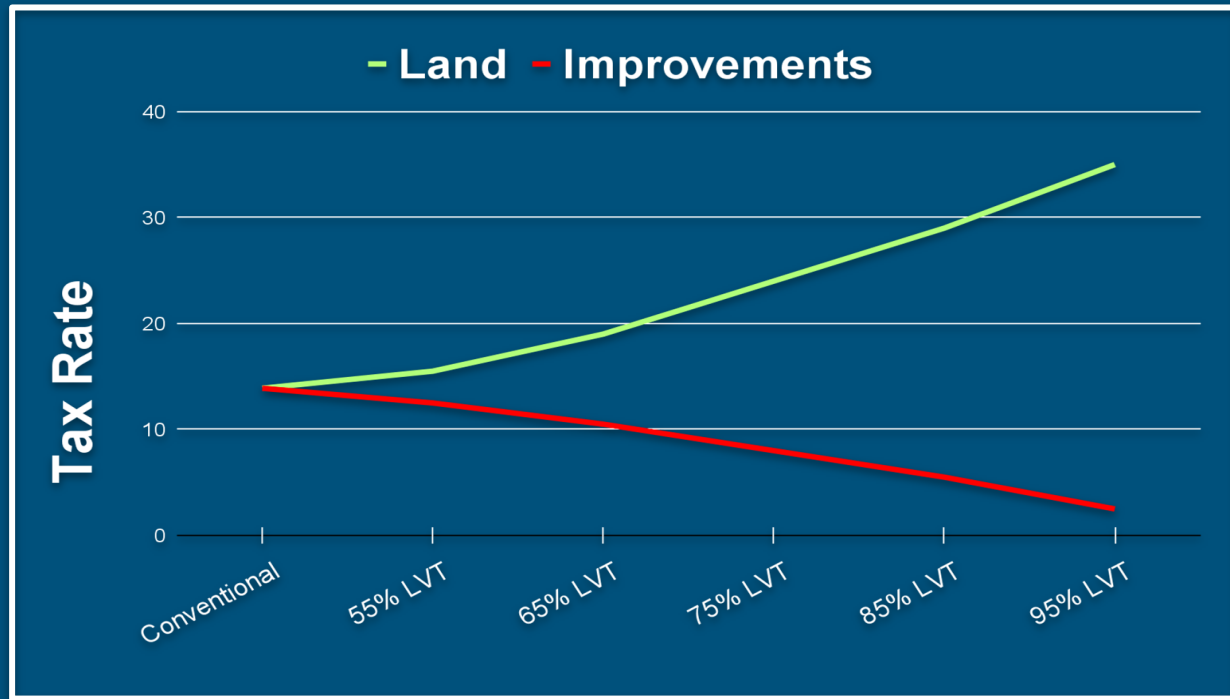
An algebraic formula converts a total equal rate to revenue neutral split rates



The phase-in period can be made flexible, corresponding to current land value inflation rates.

Begin with a small rate differential, gradually increasing the LTV Ratio

# 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.

# LVT incentivizes building investment

Low Land-to-  
Total Value  
Ratio



Generally...

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

High Land-to-  
Total Value  
Ratio



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

# Notice the tax shift effects of a change to RMV assessments on Salem City Parcels with a Land Value Tax\*

Compared to the revenue neutral equal rate MAV tax system, taxes on:

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

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

\*75% LVT Ratio, 1998 tax year



# ILLUSTRATION OF TAX INCENTIVE EFFECTS:

Building intensive uses are *encouraged* by lower tax burden

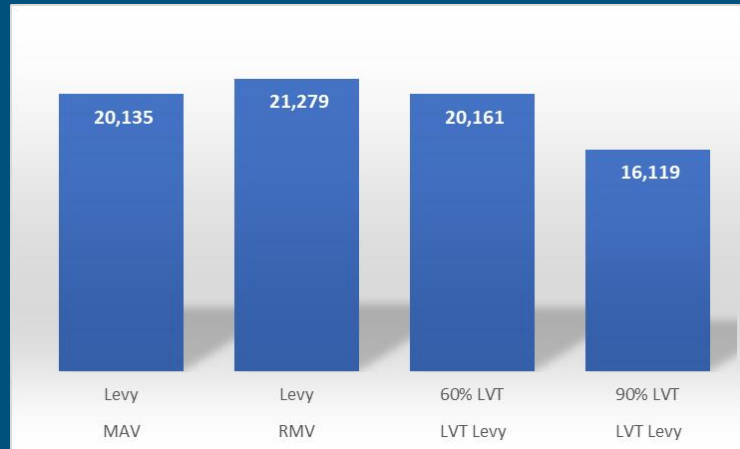
Land intensive uses are *discouraged* by higher tax burden

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



## Multifamily Mid-Rise

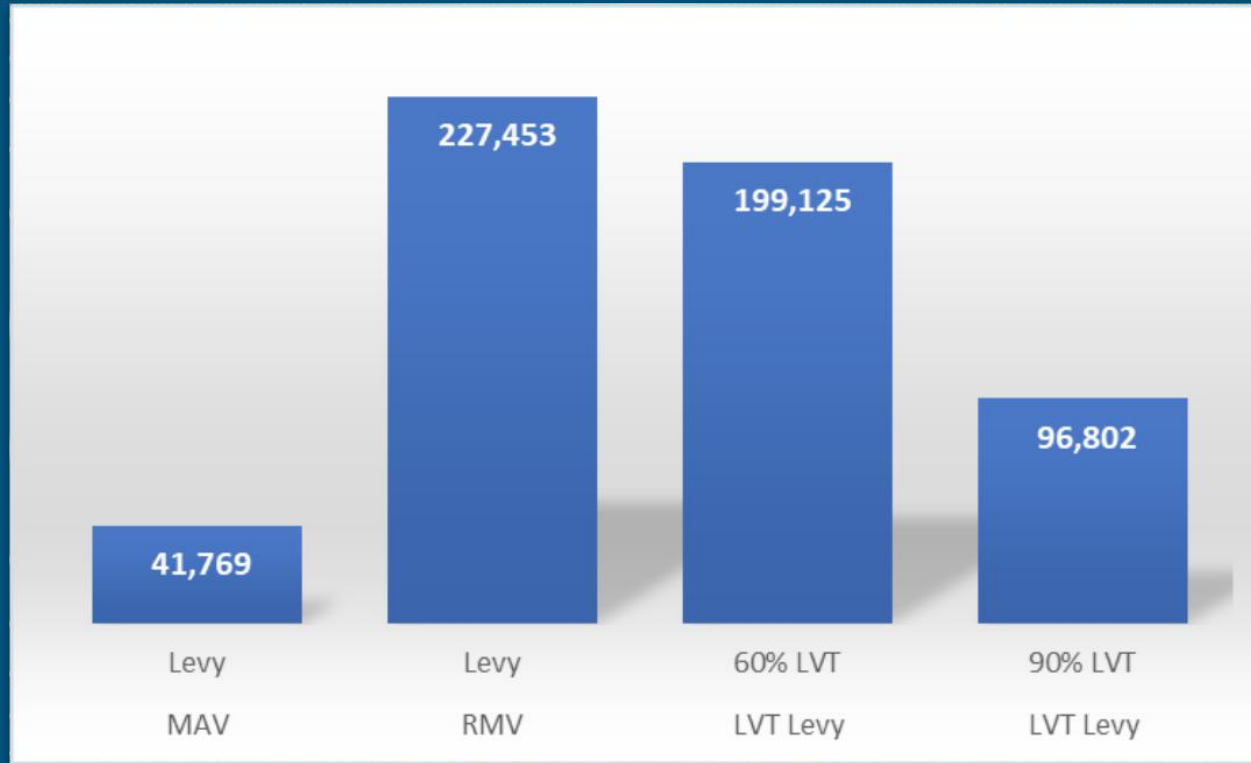
Multifamily  
Mid-Rise  
in a rapid value  
growth area



# TAX SHIFT

MAV – RMV – 60% LVT – 90% LVT

Multifamily Mid-Rise  
in a rapid value  
growth area



## Real Market Value

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

L-T-V Ratio: .10



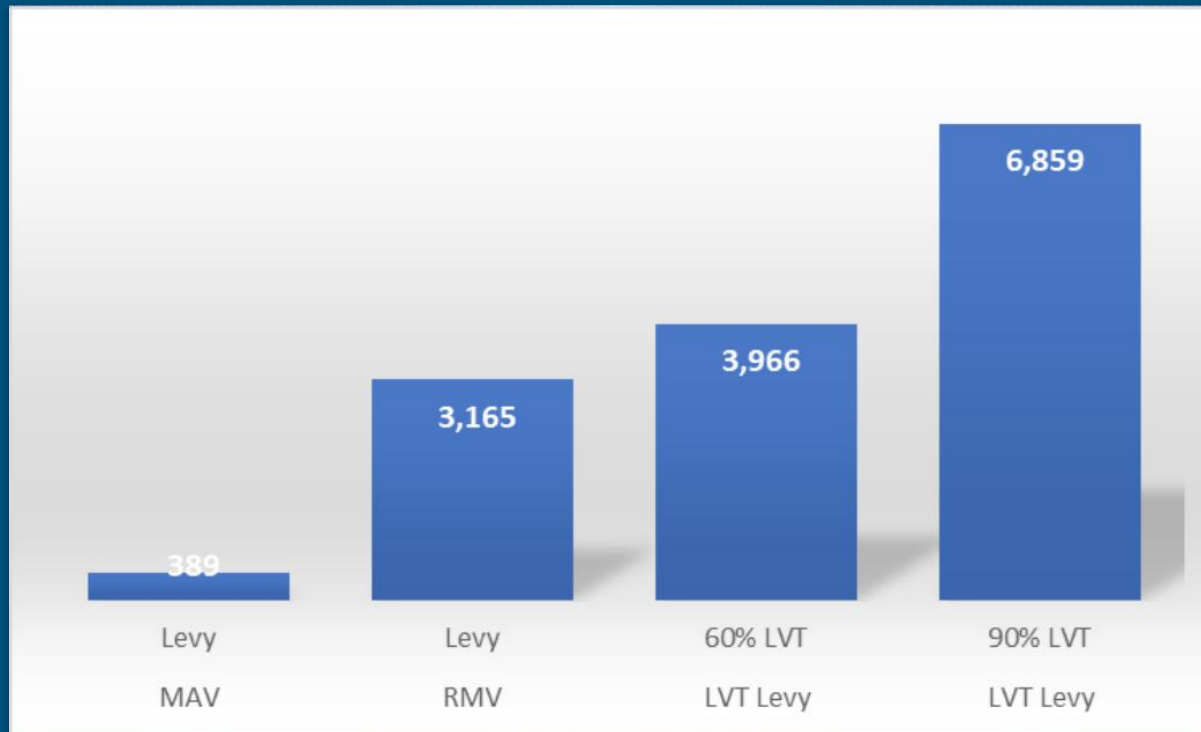
# Vacant Lot



# TAX SHIFT

MAV – RMV – 60% LVT – 90% LVT

Vacant Lot



**Real Market Value**  
Land = \$297,770      Improv. = \$0  
L-T-V Ratio: 1



# Does a change to LVT raise taxes?

- 1) City-wide revenue is revenue neutral during the phase-in period; tax shift varies on individual parcels according to the L-T-V Ratio.
- 2) Land value gain is not an investment; it is speculative – an unearned increment, independent of owner's influence.
- 3) Accumulated “equity” from increasing land value is capturable through taxation.

The annual increase is **Land Rent**.

LVT is designed to capture land rent and concede building values

However, the 2-rate LVT doesn't capture all of a property's land rent.

The annual capture rate for most land uses is generally under 50%, leaving most of the accumulated equity in the hands of the owner.

Note: If a higher capture rate is desired, thereby increasing the incentive power of LVT, the tax rate would likely have to become revenue positive.

# Total revenue being the determinate\*, is there a better way to control growth in taxes?

Limits on assessed values are a deeply flawed means to counter rising property taxes

The conversion to LVT changes Oregon's tax from a rate-based system to a revenue-based system – the norm for property taxes. Annual tax rates are determined by projected revenue.

An alternative tax limitation measure:

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

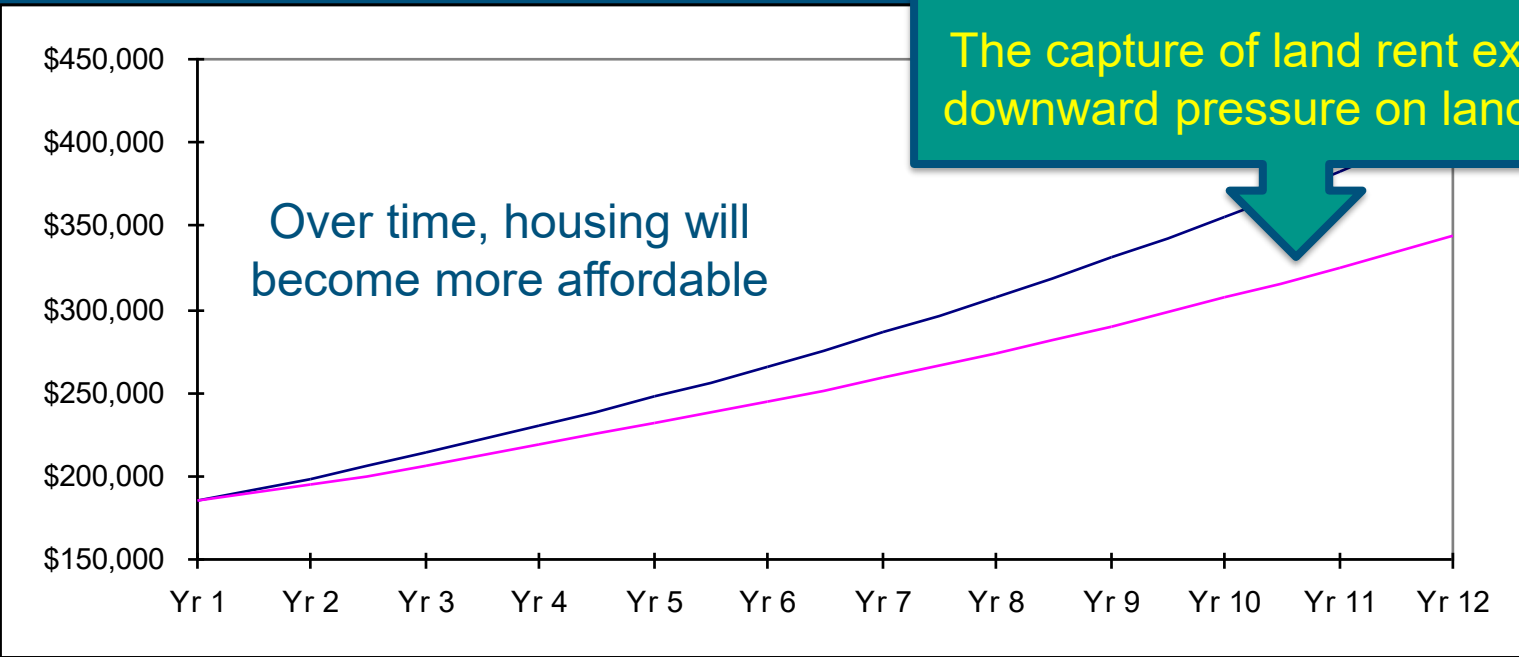
\*Budgets are based on expected revenue; millage rates are calculated to meet the property tax revenue needed to fund the budget.

\*\*Limits typically take the form of a maximum allowable annual percentage increase in total tax revenues.



# Does LVT advance housing affordability?

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



**REVERSE CAPITALIZATION:**

Under Oregon's M-50 tax system, artificially low taxes on high value properties are capitalized into a higher sales price – a hidden subsidy\*

\* The "Capitalization Study" by the Northwest Economic Research Center

# Implementing Oregon Property Tax Reform

## State Level

Constitutional amendment authorizing:

- A local option land value tax
- An exemption from Measures 5 and 50

## Municipal Level

- Ballot measure adopting local option LVT
- Appointment to an LVT Commission synchronizing transition

# Oregon's statewide property tax study bill: HB 2321

Authorizes the Legislative Revenue Office to recommend options to “modernize” the property tax.

- Reviews cities' experiences with revenue shortfalls, housing supply & affordability.
- Opens the door for LVT solutions to M5 & M50 troubles.



# 1% RMV tax on land values, funding an Oregon Citizen's Dividend -- (\$1000/adult, \$500/child)\*

## Achievements:

- Affordable housing through economic system
- Land prices lowered, land price inflation dampened
- Land as commonwealth, not for private capital accumulation
- First step in OR property tax reform – back to RMV and taxing land value more than improvements

# 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

