

**Testimony to the Oregon House Revenue Committee
on behalf of HB 2509: Authorizing a study of LVT**

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Measure 5 and Measure 50 place limits on the growth of individual assessments as well as caps on property tax rates. The cumulative effect of these tax initiatives approved by Oregon voters since 1990 is a shift in tax burden from some classes of property onto others. The approach to reforming the property tax system that is gaining traction among local officials is a local option granting jurisdictions an exemption from M-5 and M-50.

The question about which there is lingering doubt is whether the return to real market assessments (RMV) should occur gradually over time, e.g., “reset upon sale”, or whether RMV should occur without hesitation. Our position at Common Ground is the inequities and distortions are so egregious that a one-time permanent fix is the better solution, **with the qualification that a land value tax system be adopted in tandem with tax limitation changes.**

The local option would first correct the assessed value distortions caused by skewed assessments by changing MAV to RMV. Secondly, M-5 limits would become immaterial as RMV assessments undoubtedly increase the taxable base in most jurisdictions. Because of the severe restrictions of M-5 on annual tax rates, taxing districts now tend to reach towards the maximum rates allowed, making rates the driver in determining what revenue can be collected. Returning to RMV will permit jurisdictions to return to the practice of setting tax rates according to pre-determined revenue targets. The third element of the local option is to introduce a graduated land-based tax system that targets land rent as the legitimate source of local government revenue. This necessary step will alleviate the unfairness of the current system and its economic distortions.

A change to true market assessments coupled with land-based taxation is shown to be less punitive to owners who undertake substantial capital investments—who put their land into production or use land more intensively. The greatest benefits accrue to multifamily and smaller lot residential properties, as well as centrally located fully developed sites. Conversely, LVT tax simulations reveal upward tax shifts associated with vacant and underutilized sites, especially those in central locations.

Owners of all real estate, including owner-occupied residential properties, collect “land rent” in the form of property appreciation as long as site values continue to rise. It is fair to secure a substantial portion of this “unearned increment” as revenue for public purposes. By capitalizing the additional land tax liability into lower resale prices and lowering the expectation of windfalls, the 2-rate LVT apparently helps housing prices become more widely affordable, and still is shown to leave an amount of accumulated equity in the hands of the homeowner.

The study of LVT proposed in this bill will be able to test these suppositions, so that by next legislative session we can actually get to the business of implementing real and permanent property tax reform.