

HB 3194

“Minor Construction” Definition

House Committee on Revenue

LRO | 4/26/2023



Outline

- “Minor construction” definition
- Measure history: HB 3194
- What the bill does
- Amendments
- Policy considerations





“Minor Construction” Definition

- “Minor construction” means additions of real property improvements, the real market value of which does not exceed \$10,000 in any assessment year or \$25,000 for cumulative additions made over five assessment years. [308.149(5)]
- Minor construction is an improvement to real property that does not result in a change to the property’s maximum assessed value (MAV)
 - Due to fact that “new property or new improvements” does not include changes in value of real property as a result of minor construction





Measure History: HB 3194

- House Revenue Committee
- 2/16 — Public Hearing
- 3/14 — Informational Meeting
- Issues Discussed:
 - Adjustment of minor construction thresholds to account for current costs of construction
 - Value thresholds and incentives/disincentive for upgrades, including mechanical systems of higher value
 - Regressivity/progressivity of value thresholds set as a percent of the real market value
 - Property tax and local government budgets





What the bill does

- Changes thresholds to determine whether real property improvements constitute "minor construction" for property taxation purposes
 - Replaces current thresholds of \$10,000 per assessment year or \$25,000 over five years with new thresholds of ten percent of real market value of property per assessment year or twenty percent over three assessment years
- Applies to assessment years beginning on or after January 1, 2024
- Takes effect on 91st day after sine die





Amendments

- -1 Maintains current thresholds to define minor construction for commercial property. For noncommercial residential property, uses value thresholds from introduced HB 3194 to define minor construction.
- -3 Deletes current thresholds and establishes new thresholds of \$18,200 per assessment year or \$45,000 over five assessment years, based on inflation adjustment since status quo became law in 1997. These thresholds are then adjusted for inflation annually.





Amendments (cont.)

- -3 amendment addresses:
 - Inflation and rising cost of construction. Helps ensure improvements that constitute minor construction are stable over time
 - On line 8, “percentage increase, if any” is intended to ensure threshold doesn’t decrease
 - Bill applies to assessment years beginning on or after January 1, 2024. Indexing begins following assessment year, beginning on January 1, 2025
 - Regressivity. Thresholds set at a fixed value (e.g., \$18,200 per assessment year or \$45,000 over five assessment years) is progressive tax policy; property improvements that constitute minor construction can be a higher percent of property value for those with lower income





Policy Considerations

- “General ongoing maintenance and repairs” [ORS 308.149(6)(b)(A)] is a separate provision than “minor construction”
 - Like minor construction:
 - Not result in change to property’s MAV value
 - Not limited to particular property changes (e.g. structural or limiting effects of ordinary deterioration)
 - Unlike minor construction it is not limited by dollar value



Legislative Revenue Office

<https://www.oregonlegislature.gov/lro>

503-986-1266

State of Oregon

LEGISLATIVE REVENUE OFFICE

