

Portland land value tax would improve equity for homeowners, incentivize development

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Shifting Oregon's property tax structure to a land-value tax base could improve equity among homeowners of various income levels, [according to a study conducted by Portland State University's Northwest Economic Research Center](#) (NERC).

A pure land-value tax assesses [property taxes](#) based purely on the value of the land, regardless of the structures built on site. NERC's study looks at a modified land-value tax, that assesses a significantly higher rate on land than improvements. Property taxes in Portland and in Oregon are currently guided by Measure 5 and Measure 50, which place limits on property tax rates.

Measure 5, approved in 1990, limits the property tax rate to \$15 per \$1,000 of assessed value. Measure 50, approved in 1997, prevents the assessed value of individual properties from increasing more than 3% annually. In a 2014 report, NERC showed how these laws made it so that higher-income areas pay a lower proportion of their property's values in taxes than low-income areas.

"Right now if you own land and you build up on it, the total amount is counted toward your property tax," said Peter Hulseman, a NERC senior economist. "Land value taxes, basically they primarily tax the land. You can see based off that concept how it would incentivize development because improving your land doesn't cost anymore."

In Portland, shifting to a land value tax (LVT) would increase the

property taxes for land in more desirable areas—primarily inner Portland—and reduce tax payments elsewhere.

Generally speaking, Hulseman said under this type of tax structure, higher-income areas would pay more in tax and lower-income areas would pay less. The structure taxes land based on "highest and best use."

"But the policy is revenue neutral, meaning the government isn't earning more," he added. "They've just switched who's paying the bulk of the bill."

In the U.S., a land value tax was tried most recently in Altoona, Penn. in 2011. But the city reverted to traditional property taxes in 2016 due to ongoing confusion and limited effectiveness. Other countries—including Denmark, Lithuania, Russia and Taiwan—still utilize land value taxes.

"It's more unique in Oregon because we have very unusual property tax laws in place," Hulseman said.

Oregon is also one of four states studied by the Center on Budget and Policy Priorities where existing property tax structures exacerbate [economic inequality](#), according to a 2018 report.

NERC looked at a few scenarios and the potential impact in Portland. Those included getting rid of Measure 5 and Measure 50, and separately, what would happen if those measures were replaced with a land value tax structure.

The PSU study confirmed that land value taxes would lead to more widespread economic equality. Further, shifting to a land value tax structure would incentivize development.

A new land value tax structure would require mitigation to prevent

negatively impacting groups like low-income homeowners and fixed-income homeowners who own property in high-value areas. Hulseman said carefully crafted legislation could prevent those negative impacts. Some options are detailed in the report, including exemptions for farms and grandfathering low-income households.

"In short, many of the inequities created by Measure 5 and 50 would likely be reversed if a LVT were implemented in the Portland region," according to the study.

The next step is a statewide study, which requires legislative approval. Hulseman said the soonest this study could get underway is early next year.

Provided by Portland State University

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