Property Tax Reform for Commercial and Industrial Properties Producing $1.26 Billion per Biennium Revenue Increase

Background

In the 80's, Oregon, like most states, taxed corporate income based on a "three-legged stool" with equal weight given to: 1) payroll in the state, 2) property in the state and 3) sales in the state. Since the '90s however, states have moved to taxing corporations only on sales in the state, effectively providing a tax break on property. Then came the second tax break.

Until the 1990's and ballot measures 5 and 50, business property taxes were based on real market value (RMV). Statewide, they are now taxed at about 75% of value, but in areas with high real estate inflation, even new buildings are being taxed at as little as 39% of real market value. Broad inequities exist. Two gas stations, office buildings or restaurants, with the same RMV and tax rate can have vastly different Tax Assessed Values (TAV).

The results are TAV is now well below sales prices, and not even new construction is assessed at true market value. In the parts of cities and the state which have experienced the highest appreciation in values, the TAVs are deeply discounted from RMV.

The consequences of these and other changes are that Oregon's business taxes lag behind the rest of the country. The Tax Foundation recently found our overall tax climate the seventh most advantageous for business in the country.

Proposed Property Tax Reform for Commercial and Industrial Properties

The goals of our property tax reform ideas are to:

1) Improve tax equity among business property owners;
2) Adequately fund current and future operations of cities, counties, schools and other local jurisdictions;
3) End the massive discounts Measures 5 and 50 gave these properties; and
4) Capture revenue from increased and rising commercial land and building values.

Basic ideas of Proposal

- Gradually move toward taxing commercial and industrial property near real market value (RMV). Note: farm, forest and residential housing properties are not included.
- To decrease volatility, the Tax Assessed Value (TAV) will be basing on a three-year average of RMV.
- To avoid dramatic changes for property owners, for those below 90% of RMV, taxes will move up gradually in 20% increments over five years.
- End the 3% timely payment discount for commercial and industrial properties.

- Set the minimum tax rate for K-12 and community colleges at $5 per thousand of assessed value for these properties while permitting local options and bonding levies to tax above this amount. Going forward this minimum tax would apply to all new properties including those within an enterprise zone, urban renewal district, transit zone or offered similar property tax exemptions. Thus, local jurisdictions will give exemptions from or divert their own portion of property taxes (55%) but cannot reduce education dollars.
- For multi-use buildings, conform the business-use portions to the new change, while the residential portions retain the current taxing formula.

Our Research and Calculations:

These changes will increase tax equity among businesses in any given area, bring rationality to business property taxation, capture rising land values, while more fairly and adequately funding local jurisdictions, K-12 and community college education. When fully implemented, we estimate these changes will yield over $1.26 billion per biennium in increased local revenue. Roughly 41% will go to K-12, and another 4% to community colleges and 55% to the other local jurisdictions for operations and future growth. Revenue could be higher, depending on how closely assessors RMV tracks with current market value. We have researched current tax figures by county and calculated increased revenue projections if these tax reform ideas are implemented. Other states are considering this reform. California advocates have turned in signatures for a public vote in 2020.

Concerns and Considerations:

Counties will need more money for assessors, software, and the increased cost of appeals. To implement this reform, for the first three years the legislature should provide funding to counties to pay for the increased costs. Volatility will increase since property values will go up and down with the market economy but will be modified for both jurisdictions and property owners by using a three-year blended RMV. We will need to move gradually to taxing at the blended RMV since taxes will double for some property owners. Taxing multi-use properties will be complicated. To deal with this complexity, the Department of Revenue could provide a software program or patch to help counties calculate the new tax changes.

Additional Ideas:

- Include vacant land and under-utilized buildings in a program similar to a land value tax at sales value rather than current use value.
- Include recreational property while providing a clearer definition of what that includes.
- Include trade-offs, e.g. reduced taxation of personal property (equipment) as long as significant revenue growth is preserved.

Conclusion:

Property tax reform is needed. Oregon schools and services have suffered greatly as a direct result of being deprived of this valuable source of revenue. Now it’s time for the pendulum to swing back; taxes need to fall more fairly on business. Let’s reform commercial and industrial property taxes to conform to their true worth.