Chapter 1

Introduction to the Property Tax System

Oregon's property tax system supplies revenue that funds services provided to citizens. In recent years, Oregon voters approved two significant property tax limitations, yet revenue generated by property tax is second only to personal income tax revenue. For the 2000-2001 tax year, property taxes raised more than $3 billion for local governments.

This chapter summarizes the assessment program and tax collection process.

Legal Basis for Assessment

ORS 307.030 states:

- All real property within this state and all tangible personal property situated within this state, except as otherwise provided by law, shall be subject to assessment and taxation in equal and ratable proportion.
- Except as provided in ORS 308.505 to 308.665, intangible personal property is not subject to assessment and taxation.

Oregon has an ad valorem taxation system. The taxation system is based on the value of property. The amount of property tax an owner of a property will pay is determined by:

- The taxable assessed value of the property;
- The total of the tax levies imposed by the taxing districts in which the property is located; and
- Constitutional tax limitations.

Imposition of Tax

A taxing district collects property tax dollars by imposing a levy. Property tax levies are either rate-based or amount-based. Most taxing districts impose rate-based levies for at least some of their operating revenues. The rate for most districts is limited by an amendment to Oregon's constitution referred to as the permanent rate limit. Districts can levy a tax rate every year that is less than or equal to this limit without additional voter approval. Amount-based levies are usually bond levies or local option levies that have been approved by the voters of a taxing district for a fixed dollar amount per year. Bond and local option levies are in addition to the permanent rate levy. Local option levies can be either rate-based or amount-based. When a taxing district imposes an amount-based levy, the county assessor converts the amount levied into a tax rate by dividing the levy amount by the total assessed value in the district.

Role of the Department of Revenue

The Department of Revenue (DOR) supervises the administration of the property tax system in Oregon. ORS 306.115 states:

> "The department may do any act or give any order to any public officer or employee that the department deems necessary in the administration of the property tax laws so that all properties are taxed or are exempted from taxation according to the statutes and Constitutions of the State of Oregon and of the United States."

In partnership with the counties, DOR:

- Trains and provides technical assistance for county staff;
- Writes administrative rules and legislative concepts;
- Advises the counties regarding property tax issues;
- Reviews the assessors' certified ratio studies;
- Holds property tax appeals conferences; and
- Responds to questions from taxpayers.

DOR is also responsible for appraising large industrial and utility property.

Summary of the Assessment Program

The assessment program is the foundation of the property tax system in Oregon. Each county has an elected or appointed assessor who administers the program at the local level. The assessor has the responsibility to discover, list, and value both real and taxable personal property according to the following guidelines.

Assessment Date

ORS 308.210 (1) describes the "assessment date" and states in part:

> The assessor shall maintain a full and complete record of the assessment of the taxable property for each year as of January 1, at 1:00 a.m.

Frequency of Appraisal

From 1955 to 1996, the assessor was required by law to physically reappraise all property in the county every six years. This requirement was eliminated in 1997 for various reasons including budget constraints, accelerated appraisal techniques, and the successful application of computerized valuation programs. Current law requires that each parcel of real property be appraised using a method of appraisal approved by DOR administrative rule. See ORS 308.234.

Duties of Assessor

The major duties of the county assessor are:

- Locate and identify each property.
- Inventory each property.
- Classify each property.
- Estimate the real market value (RMV) of each property.
- Calculate the taxable value of each property.
- Prepare and certify the assessment roll for the county.
- Calculate the tax due for each property.
- Respond to all property value appeals.

Locate and Identify Each Property

To locate and identify property, the assessor needs an adequate mapping system that shows each parcel of land in the county.

After the assessor receives notice of the existence of new property, the assessor must describe the property to make an assessment. This is achieved through a parcel numbering system, referred to as cadastral mapping, in which each property is assigned its own identifier. (See Chapter 4 for more details.)

Inventory Each Property

Except for large industrial and utility property, the assessor is responsible for maintaining the inventory of land, buildings, and other improvements attached to the land throughout the county. Maintaining the inventory or real property requires an on-site inspection. During the inspection, the appraiser records the following information about the land and improvements:

- Size;
- Quality;
- Condition; and
- Other pertinent data.

The assessor updates the inventory through additional physical inspections whenever new construction is discovered.

The assessor's staff develops an inventory of taxable personal property from annual returns filed by the property owners or the person in possession of the property. The return filed with the assessor is called a *Confidential Personal Property Return*, form number 150-553-004. The assessor may choose to perform an on-site inspection of the property to confirm the inventory.

The Department of Revenue is responsible for appraising and maintaining the inventory of large industrial improvements valued at over $1 million. The inventory of state appraised industrial property is updated annually through the state's *Industrial Property Return,* form number 150-301-032. The inventory of county appraised industrial property is updated annually through the county's *Real Property Return,* form number 150-301-031.

The department is also responsible for appraising and developing the inventory of all centrally assessed property. Centrally assessed property includes utility property, railroads, and airlines.

Classify Each Property

Each property in the county must be classified according to its taxable status and property type. OAR 150-308.215 contains the basic property class codes that the assessor must use to classify property. Correct classification ensures that property receives the correct annual adjustment or exemption from taxation.

In Oregon, the basic property classes are:

0. Miscellaneous
1. Residential
2. Commercial
3. Industrial
4. Tract
5. Farm
6. Forest
7. Multi-family
8. Recreation
9. Exempt

There are sub-classes to further identify property.

Estimate Real Market Value (RMV)

Oregon law requires all real or personal property that is not exempt from ad valorem taxation or subject to special assessment be valued at 100 percent of its RMV. RMV is defined in ORS 308.205(1):

> Real market value of all property, real and personal, means the amount in cash that could reasonably be expected to be paid by an informed buyer to an informed seller, each acting without compulsion in an arm's length transaction occurring as of the assessment date for the tax year.

The RMV of all taxable property in the state is updated annually through various methods of appraisal, the Assessor's Certified Ratio Study, and application of computerized trending.

Calculate Taxable Value

The law defines taxable assessed value as the lesser of a property's maximum assessed value (MAV) or RMV. Assessed value (AV) is the value upon which taxes are based. MAV was created through an amendment to the constitution (Measure 50) passed by Oregon voters in 1997. MAV was defined for the 1997-98 tax year as the 1995 RMV reduced by 10 percent. For the years following 1997-98, MAV is equal to the greater of 103 percent of the prior year's assessed value or 100 percent of the prior year's MAV. See ORS 308.146.

The law allows MAV to be adjusted above three percent only for specific reasons that are referred to as "exceptions." Exceptions are discussed in Chapter 13 of this manual.

The assessor must keep additional values on the roll for specially assessed property.

Prepare the Assessment Roll

The product of the assessor's work is an annual assessment roll. The roll is the basis for the levy of taxes that will be collected annually. The roll contains information about each property including:

- The name of the owner;
- A description of the property by code area and account number;
- The property class;
- The number of acres;
- The RMV of the land;
- The RMV of the buildings;

- The taxable status of the property; and
- The total AV, MAV, and RMV of the property.

See ORS 308.215 for a complete listing.

Calculate the Tax

Typically, the assessor calculates the taxes due against a property by multiplying the AV of the property by the tax rate of the taxing districts in which the property is located. However, if the amount of tax calculated by this method is higher than the Measure 5 constitutional limits allow, the taxes due against a property must be compressed. In such a situation, the tax is under "compression" and is calculated by multiplying the RMV of the property times the constitutional limits of $5 per $1,000 of RMV for the education category and $10 per $1,000 of RMV for the general government category.

The assessor knows if the tax for a property is under compression by applying the "M5 test." The M5 test checks the taxes to be billed against the $5 and $10 category limits. If the taxes are less than the limits, the taxes will be billed without compression. If the taxes to be billed are more than either the $5 limit or $10 limit, the taxes will be reduced until they fit under the limitation. The M5 test is applied to every taxable property in the county.

After the taxes are computed for each property tax account, the assessment roll is certified to the tax collector and becomes the tax roll. In some counties, the assessor may also be the tax collector.

Respond to Property Value Appeals

The result of each assessment is a tax bill. If a property owner disagrees with the assessor's estimate of value, the owner may appeal the value to their local board of property tax appeals (BOPTA). DOR–appraised industrial property may be appealed to either BOPTA or the Magistrate Division of the Oregon Tax Court. Centrally assessed property is appealed to the DOR director.

The appeal process allows property owners the opportunity to ensure their property is valued correctly and in accordance with statutory provisions. If the taxpayer disagrees with the board's decision, the taxpayer may appeal to the Oregon Tax Court.

The assessor may respond to appeals at each step in the appeal process. See Chapter 15 for a complete discussion of appeal procedures.

Role of the Tax Collector

The tax collector bills and collects all taxes and makes periodic remittances of collections to taxing districts. The tax collector mails tax statements to property owners on or before October 25 of each year. The statements contain the RMV and AV of the property and the taxes imposed for each taxing district. The statements also indicate any delinquent taxes from previous tax years.

Taxes are levied and become a lien on property on July 1. Tax payments are due November 15 of the same calendar year. Taxpayers may elect to pay their property taxes in three equal payments:

- the first payment due November 15;
- the second payment due February 15; and
- the final payment due May 15.

The taxpayer receives a 3 percent discount if full payment is made by November 15 or a 2 percent discount if two-thirds is paid by November 15. For late payments, interest accrues at a rate of 1 1/3 percent per month.

If the property is real property, taxes become delinquent if not paid in full by May 15. Foreclosure proceedings begin if taxes are unpaid after three years. Foreclosure is the legal process a county uses to acquire title to property. After foreclosure, the property can be sold to satisfy the tax debt.

If the property is personal property, taxes are delinquent immediately after any required payment is missed. Counties are required to issue warrants for collection 30 days after delinquency and may seize the property for collection at any time after delinquency.