Transition to a Land Value Tax

Minimizing the adverse impacts while converting to LVT

We have proposed three steps to ease the transition from Oregon's conventional equal rate tax to a split-rate LVT and to address unnecessary hardships that may result.

Steps in the Transition to LVT

1. **Close the assessment gap** over a 5-year period
2. **Graduated split-rate LVT** over a possible 10-year period
3. **Homestead exemption** for hardship cases

Many jurisdictions are facing a familiar problem when property assessments have over time fallen short of true value. The first step in transitioning to a land value tax is to make certain that assessments are accurate and up-to-date. An immediate full introduction of real market assessments (RMV) will be a shock to most property owners whose taxable assessments (MAV) fall short. Enacting an assessment phase-in rule will gradually bring land & building values to the level needed to correct lagging assessments. We suggest a **buffered phase-in**, a simultaneous phase-out / phase-in yielding annual values reaching the target RMV in year five.

Even during a gradual transition, there may be hardship cases where a single year change to RMV may result in an excessive financial burden. This obviates the need for some form of **targeted homestead exemption**, a legislatively approved program that relieves qualified individuals or organizations full or partial exemption from property taxes. Oregon has over 100 exemption programs, several cited in (ORS) 307. Examples are the Enterprise Zone Exemption, the Homestead Exemption under the Family Financial Protection Act, the Multiple Unit Property Tax Exemption, and the Nonprofit Low-Income Rental Housing Exemption. In Enterprise Zones, new buildings or structural modifications and additions are exempt but not land. Our proposal for eligibility would include property owners for whom the tax increase resulting from the conversion to a land value tax exceeds a *specified percentage* over what would be the tax levy from the previous year under the conventional tax.

The next step is to **phase in the split-rate** LVT option over about a 10-year period. Our solution is to begin with "LVT light": introducing the differential rates on land and improvement assessments, beginning with a small rate differential gradually increasing. The standard method is to express the split rate as the percentage of the total tax rate applied to land assessments. Start with a low ratio, for example 55/45, where 55 percent of the total rate is on RMV land assessments and 45 percent on improvements. This differential would then be increased to 65/35, and eventually to 95/05. Both phase-in steps, MAV to RMV and tax rate differential, would proceed concurrently.