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FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/09

SPONSOR Park LAST UPDATED _____ HJR 3

SHORT TITLE Head of Family Property Tax Exemption, CA SB _____

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	NFI – See Narrative			

(Parenthesis () Indicate Revenue Decreases)

Relates to several bills – See below for table of property tax bills considered in 2009 session

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Joint Resolution 3 proposes to amend the NM Constitution to change the amount of property value exempted for heads of family from \$2,000 to \$20,000. All changes to the constitution, including HJR3, must be submitted to the people for a vote at the next general election.

FISCAL IMPLICATIONS

The intent of HJR3 is to give families relief on their property taxes by significantly increasing the head of household exemption to \$20,000. In 2008, approximately 270 thousand taxpayers qualified for the exemption for a total property tax base reduction of \$546 million. The need to maintain a level of funding for debt service and operational income, particularly for counties, means that rates will adjust upwards for all taxpayers. Lowering the valuation of property also affects the amount available for capital outlay for the state and local governments including school districts.

House Joint Resolution Bill 3 – Page 2

A taxpayer who qualifies for the head of family exemption would, outside of any upward rate revision, see a reduced tax bill of approximately \$170 annually.

SIGNIFICANT ISSUES

County government and school districts rely primarily on property tax revenues for operations and general obligation capital funding.

TRD:

Raising this exemption to \$20,000 could reduce the base by something less than \$5.46 billion, since some homes have insufficient value to claim the full \$20,000 amount. The reduction in the property tax base would cause tax rates to rise, where not already limited. The higher exemption would remove a larger fraction of the taxable value of lower-valued homes than higher-valued homes from the property tax base. The exemption would also leave unchanged the taxable value of non-residential properties. In general, the net effect of the changes in the property tax base and rates would be a reduction in property taxes paid on lower-valued homes and an increase in property taxes on nonresidential properties, with an indeterminate effect on the property taxes paid on higher-valued properties. The outcome in each location would depend on the mix of lower-valued homes, higher-valued homes and nonresidential property, whether rates were capped (or became capped), and the effect of yield control on rates.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

There are several property tax proposals being considered in the 2008 session:

House Joint Resolution Bill 3 – Page 3

Bill Number	Title	Description
HB34	PROPERTY TAX INFORMATION DISCLOSURE	Disclosure of certain information regarding property tax to home buyers
HB132/SB115	EDUCATIONAL PROPERTY TAX EXEMPTIONS	Property leased to a public school district or public school and used exclusively for educational purposes is exempt from property tax
HB160/SB181	NO REEVALUATION OF PROPERTY UPON SALE	Repeal the provisions of Section 7-36-21.2 that provide for revaluation of real property when it is sold and prohibit the value from exceeding the higher of 103 percent of the value in the previous tax year or 106 percent of the value in tax year two years prior to the tax year in which the property is being valued
HB178	UNIFORM UNCLAIMED PROPERTY RECOVERY FEE CAPS	Provides for a fee of not more than ten percent of the value of the property recovered
HB251	UPDATING PROPERTY VALUES WITH DECREASES	County assessors shall include reductions, to reflect decreases in market value, when updating property values
HB261	ESTIMATED FUTURE PROPERTY TAX INFO TO BUYERS	Requiring disclosure of estimated future property taxes to a buyer of residential real property
HB297	PROPERTY TAX ON MUTUAL DOMESTIC ASSOCIATIONS	Exempting the personal property of nonprofit mutual domestic water associations from property taxation
HJR1	VETERANS' ORGANIZATION PROPERTY TAXES, CA	Exempt certain property from valuation
HJR4	NATIONAL GUARD VETERAN PROPERTY TAXES, CA	Include national guard veterans in military veteran exemption
SB32	LAND GRANT PROPERTY CONVEYANCE TAX CREDITS	Allowing land grants operating as political subdivisions of the state to be eligible for tax credits available for certain conveyances of real property
SJR3	LIMIT REAL PROPERTY TAXES TO ONE PERCENT, CA	Imposes maximum total tax levy of no more than 1 percent of current and correct tax value.

POSSIBLE QUESTIONS

What impact will this have on local government financing options?

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc