

PROPERTY TAX OPTIONS

OPTION 1. Study of Property Tax Code Administration and Procedures.

The commission under this option would recommend that the legislature direct or request a study of the administrative, reporting and procedural aspects of the Property Tax Code. The code was enacted in the early 1970s. Technology for recording, storing, transmitting and manipulating mass amounts of data has made great strides in the intervening years. It is quite possible that the timelines and procedures specified in the code can be re-thought, taking advantage of the computational and information technologies available today. In the process, the entire taxation process might be made more transparent.

FISCAL IMPACT

Variable, depends on the scope of the study.

PROS

- The property tax is the state's oldest revenue source. It needs to be upgraded periodically. It has been 30 years since the last comprehensive look.
- The property tax reputedly has the highest ratio of administrative cost to tax collections among the major taxes. Efforts to reduce that ratio cannot be amiss.

CONS

- This could be a back door approach to evaluating the functioning and structure of county offices.

OPTION 2. Property Transfer Tax.

A property transfer tax is an excise tax on the sale or other transfer of real property. Rates are typically low, from 0.5 percent to two percent of the sales price of the property. There are 34 states that impose some form of a property transfer tax.

Some choices need to be made to flesh out an actual program. A property transfer tax applied to residential property is fairly straightforward; commercial property involves dealing with transfers by means other than sales of the real estate, such as selling stock in a corporation that owns the real estate. Consideration of a "zero bracket" amount of \$50,000 or more may be called for to give some protection to poorer householders. Whether the tax should be a flat rate or a progressive table also needs to be decided.

FISCAL IMPACT

The amount of revenue raised by such a tax clearly depends on the design of the tax. There is not enough detail at this point to provide a real revenue estimate, but a flat 0.5 percent rate, without a zero bracket amount, for residential property transfers statewide might raise in the neighborhood of \$30 million.

PROS

- The New Mexico tax system is unbalanced. It relies far too heavily on the gross receipts tax and draws too little from taxes on property. A property transfer tax, as a supplement to the property tax, would restore some balance.
- If the revenue is directed to state coffers, instead of to local governments, some of the seasonal and geographic fluctuations will cancel out.
- The New Mexico tax system is regressive. A progressively designed property transfer tax could mitigate this.
- Because New Mexico's property taxes tend to be low, a reasonable property transfer tax can be accommodated more easily than in most other states.

CONS

- One advantage New Mexico enjoys in its competition with other states for jobs is its low property taxes. Enacting a property transfer tax will blunt that edge.
- Increasing the cost of transactions will slow the volume of sales, especially in the period immediately after introduction of the property transfer tax.

OPTION 3. A Modest Property Tax Proposal.

This option is a package. The proposal is to re-balance the state revenue system. Reliance on gross receipts taxes will be cut by creating deductions for "necessities", such as food consumed at home and medical services. The counter-balancing revenue will be raised by increasing property tax. This is to be achieved by amending the state constitution to raise the maximum tax imposable without popular approval from the existing \$20.00 per \$1,000 net taxable valuation to a higher level, such as \$25.00 or \$30.00. At the same time, the constitution would be amended to lift the head of family exemption from \$2,000 to a significantly higher level, say \$50,000 or \$75,000. Enactment of the deduction for necessities would be made contingent on passage of the constitutional amendments.

FISCAL IMPACT

Depends on the specifics. One mill of property tax statewide would raise approximately \$32 million. This amount would be reduced by a significantly higher household exemption. The final revenue increase is, of course, unknown.

PROS

- Balances the revenue system by shifting from gross receipts taxes to property taxes.
- Makes the revenue system somewhat less regressive.

- Converts the head of family into a substantive benefit from the token it is today.

CONS

- Reduces New Mexico's competitive edge on property taxes. This may be particularly important when competing with Texas.
- Enshrines as a tax principle the need to avoid taxing "necessities", however that term may be defined.
- Requires a vote of the people, so its implementation will be delayed.

OPTION 4. Make Government-Owned Properties Subject to Property Taxation.

Article 8 of the Constitution of New Mexico exempts all property owned by governments, whether federal, state or local. The use to which the land is put makes no difference. Property devoted to commercial purposes, even though in competition with privately owned land, is still exempt.

FISCAL IMPACT

Unknown. The amount of government-owned land used for commercial purposes is unknown. It also depends on the definition of "commercial purposes" in this context.

PROS

- It is unfair for governments to use their exemption to steer developments and activities away from competing private sector alternatives.
- By inserting an element of the true cost of projects, some marginal governmental projects may be avoided. The resources can be put to better uses.

CONS

- This may be a back door way of shutting down use of industrial revenue bonds. These bonds are the most successful economic development tool that New Mexico has.
- Taxing government property is an exercise in circularity. Property taxes flow to governments. All this will do is augment the amount of intergovernmental transfers. It is not clear how this will either lower taxes elsewhere or get services delivered more efficiently.