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## FISCAL IMPACT REPORT

SPONSOR: Harrison DATE TYPED: 02/04/03 HB 324

SHORT TITLE: Tangible Personal Property Tax Exemption SB \_\_\_\_\_

ANALYST: Smith

### REVENUE

| Estimated Revenue |          | Subsequent<br>Years Impact | Recurring<br>or Non-Rec | Fund<br>Affected               |
|-------------------|----------|----------------------------|-------------------------|--------------------------------|
| FY03              | FY04     |                            |                         |                                |
|                   | Positive |                            | Recurring               | Owners of<br>Personal Property |
|                   | Negative |                            | Recurring               | Owners of<br>Real Property     |
|                   | NFI      |                            |                         | State and Local<br>Funds       |
|                   |          |                            |                         |                                |

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

#### Responses Received From

Taxation and Revenue Department

### SUMMARY

#### Synopsis of Bill

House Bill 324 exempts “other tangible personal property used for business purposes that has been deducted for federal tax purposes by the owner” from the property tax.

### FISCAL IMPLICATIONS

Because of yield control, the effect of this bill is to shift taxes from businesses to households and businesses that are heavily invested in real property and personal property that will still be subject to tax. TRD notes that as a general rule, the yield control statutes have the effect that, when the property tax base is reduced by a new exemption, operating mill levies are adjusted upward to offset the impact on local government revenues. However, under some circumstances, the limits on total operating levies will prevent the upward adjustment, so the new exemption can lead to lower operating revenue. Essentially two conditions must be met for operating revenue

losses to occur as a result of the type of base reduction caused by the proposed bill. First, the entity must have imposed the maximum rate allowed under existing statute. Secondly, the actual (i.e., ‘yield controlled’) rate must equal the imposed rate. In cases where the entity has imposed the maximum rate but the rate has been reduced via the yield control mechanism, the loss of base will be compensated for via operating rate increases. In cases where the actual and imposed rates are at the maximum, however, rate adjustments will not compensate for losses in tax base. Debt rates, including the one employed for state debt purposes, will essentially always adjust in a way that compensates for base reductions.

**OTHER SUBSTANTIVE ISSUES**

**TRD has provided the following table showing the county level impacts.**

**Illustration: Effects of Eliminating Depreciable Personal Property Taxation by County**

| Column:    | (1)                           | (2)        | (3)                       | (4)  | (5)   | (6)   |
|------------|-------------------------------|------------|---------------------------|--|---|---|
| County     | Depreciable Personal Property | % of Total | Total Net Taxable Value** | Depreciable Personal Property Percent of Total | Weighted Average Non Residential Rate (Mills) | Approximate Revenues -- Col (5) x Col (1)/\$1,000 |
| Bernalillo | 396,638,917                   | 39.1       | 9,284,129,807             | 4.27   | 39.6  | 15,712,485  |
| Catron     | 200,380                       | 0.0        | 66,595,079                | 0.30   | 15.4  | 3,084   |
| Chaves     | 24,448,330                    | 2.4        | 663,854,170               | 3.68   | 26.0  | 634,773   |
| Cibola     | 13,885,082                    | 1.4        | 194,521,689               | 7.14   | 28.4  | 394,200   |
| Colfax     | 11,449,477                    | 1.1        | 245,549,748               | 4.66   | 25.2  | 288,377   |
| Curry      | 22,147,928                    | 2.2        | 404,520,396               | 5.48   | 23.7  | 525,041   |
| DeBaca     | 591,402                       | 0.1        | 33,376,964                | 1.77   | 25.8  | 15,243  |
| Dona Ana   | 68,884,699                    | 6.8        | 1,984,387,702             | 3.47   | 30.9  | 2,131,154   |
| Eddy       | 46,772,267                    | 4.6        | 1,737,463,068             | 2.69   | 17.7  | 828,412   |
| Grant      | 9,483,227                     | 0.9        | 476,190,212               | 1.99   | 15.0  | 142,715   |
| Guadalupe  | 1,880,345                     | 0.2        | 84,671,621                | 2.22   | 31.3  | 58,850  |
| Harding    | 3,691,323                     | 0.4        | 41,884,792                | 8.81   | 16.8  | 61,910  |
| Hidalgo    | 1,845,801                     | 0.2        | 93,534,417                | 1.97   | 22.6  | 41,680  |
| Lea        | 52,169,328                    | 5.1        | 1,610,522,658             | 3.24   | 24.7  | 1,286,982   |
| Lincoln    | 8,814,167                     | 0.9        | 545,555,677               | 1.62   | 27.7  | 244,116   |
| Los Alamos | 8,116,703                     | 0.8        | 510,919,259               | 1.59   | 20.5  | 166,149   |
| Luna       | 13,960,542                    | 1.4        | 259,915,140               | 5.37   | 20.8  | 290,969   |
| McKinley   | 29,017,820                    | 2.9        | 580,702,177               | 5.00   | 32.4  | 939,110   |
| Mora       | 587,656                       | 0.1        | 61,946,552                | 0.95   | 23.8  | 13,968  |
| Otero      | 14,558,772                    | 1.4        | 586,678,227               | 2.48   | 30.2  | 439,000   |
| Quay       | 3,970,042                     | 0.4        | 108,656,349               | 3.65   | 26.6  | 105,617   |
| Rio Arriba | 5,553,406                     | 0.5        | 1,254,383,846             | 0.44   | 23.3  | 129,439   |
| Roosevelt  | 11,006,558                    | 1.1        | 204,410,623               | 5.38   | 19.0  | 208,761   |
| San Juan   | 104,953,914                   | 10.3       | 3,106,092,088             | 3.38   | 23.7  | 2,483,573   |
| San Miguel | 7,040,426                     | 0.7        | 362,502,900               | 1.94   | 28.0  | 197,401   |
| Sandoval   | 31,837,092                    | 3.1        | 1,433,443,667             | 2.22   | 26.9  | 856,549   |
| Santa Fe   | 74,608,982                    | 7.3        | 3,789,882,990             | 1.97   | 23.3  | 1,739,459   |
| Sierra     | 3,582,132                     | 0.4        | 184,856,384               | 1.94   | 23.9  | 85,544  |
| Socorro    | 3,124,981                     | 0.3        | 122,164,319               | 2.56   | 32.0  | 99,902  |
| Taos       | 8,027,814                     | 0.8        | 676,500,978               | 1.19   | 19.3  | 154,900   |
| Torrance   | 3,528,047                     | 0.3        | 216,174,461               | 1.63   | 22.3  | 78,751  |
| Union      | 16,283,433                    | 1.6        | 120,074,290               | 13.56  | 22.0  | 357,794   |
| Valencia   | 12,497,155                    | 1.2        | 704,391,594               | 1.77   | 30.0  | 374,460   |