F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 02/04/10
SPONSOR Stewart **LAST UPDATED** **HB** 233

SHORT TITLE No Solar Panels as Property Tax Improvements **SB**

ANALYST Clifford

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY10	**FY11**	**FY12**		
NFI	NFI	($12.0)	Recurring	General Obligation Bond Capacity
NFI	NFI	NFI	N/A	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Finance and Administration (DFA)
Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill

House Bill 233 would exclude solar energy system installations from the types of property improvements that trigger a re-valuation of property for property tax purposes.

The effective date is not specified and would therefore be 90 days following adjournment (May 19, 2010). Provisions would be applicable to tax years beginning on or after January 1, 2010.

FISCAL IMPLICATIONS

The proposal would have two sets of implications with fiscal impacts. The smaller effect is that it would prevent inclusion of solar equipment in property tax values at the time of installation. As TRD notes, this equipment would effectively be included at a later date if a property is sold. The larger impact is due to the fact that many properties have had their assessed value limited due to the application of the "3 percent value limit." Thus, under present law when solar equipment is installed on such a property, it could trigger a re-assessment, bringing the entire property up to market value. This increase could be substantially larger than the value of the solar equipment itself. According to the EMNRD website, 372 solar installations have received state tax incentives since 2006. Assuming an average of 100 such installations per year, an average house value of $200,000, and a 25 percent increase in the house's assessed value upon re-valuation, the increased in assessed value due to solar installations would be on the order of $5 million annually. The bill would remove this much in property value growth from the tax rolls. Local government revenue impacts would be minimal, as tax rates adjust to offset the value decrease. Some shift of liabilities would occur, from taxpayers installing solar systems to other taxpayers. State General Obligation Bond capacity would fall by 1 percent of the change in net taxable value, which is 1/3 of the change in assessed value, yielding the impacts shown in the table. These are likely to be upper bound estimates, however since solar installations may not trigger re-valuation in all cases, as noted by TRD.

TRD notes:

> Under current law, solar systems are treated as additions to real property and subject to property taxation. In many cases they are not taxed, however, because a building permit is not always required for their installation. Assessors generally discover the property by reviewing building permits. To the extent that they are not assessed, additions of solar panels do not increase residential net taxable value and therefore impose no impact on tax collections. When a property that is equipped with solar panels is sold, however, the panels are reflected in the property's sale price and thus taxed indirectly.

SIGNIFICANT ISSUES

The state's method of valuing residential property for property tax purposes has come under court challenge on the grounds that owners of newly-purchased properties face higher taxes than those who have held their property for long periods. The proposal would expand the population that qualifies for reduced property values. In this sense, the provision may be seen by the courts as adding to the discriminatory treatment in present law.

OTHER SUBSTANTIVE ISSUES

TRD notes:

> Solar panel systems vary widely cost and range. Prices for a typical home installation can easily total $35,000. Suppose, for example, a solar panel that costs, say $30,000 is installed and taxed at one-third of that amount as required by law at an approximate 40 mill rate in Albuquerque. It would increase annual tax obligations of the associated property by $400 ($10,000 x $40/$1,000). It would also likely decrease its owner's energy costs by a similar amount. Hence in absence of legislation similar to the proposed measure, many homeowners would less likely to install solar energy than otherwise because the equipment would not justify its after-tax cost. It could therefore be argued that by encouraging solar panel purchases, the proposed measure would actually increase property tax obligations as the associated solar equipment is reflected in prices of residential property when it is sold.

RELATIONSHIP

SB 135 provides a property tax exemption for solar installations. HB 132, SB 45, SB 46, SB 139, SB 160 and SB 217 all amend the same section of statute and therefore present possible conflicts.

TC/svb

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