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## FISCAL IMPACT REPORT

ORIGINAL DATE 01/22/10

SPONSOR Garcia, M. LAST UPDATED \_\_\_\_\_ HB HJR 6

SHORT TITLE No Property Tax for Senior Citizens, CA SB \_\_\_\_\_

ANALYST Clifford

### REVENUE (dollars in thousands)

| Estimated Revenue |      |                                    | Recurring<br>or Non-Rec | Fund<br>Affected                       |
|-------------------|------|------------------------------------|-------------------------|--|
| FY10              | FY11 | FY12                               |                         |  |
|                   |      | (\$2,500.0)                        | Recurring               | General<br>Obligation Bond<br>Capacity |
|                   |      | (Indeterminate,<br>probably small) | Recurring               | Property Tax<br>Beneficiaries          |

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

Department of Finance and Administration (DFA)

### SUMMARY

#### Synopsis of Bill

The resolution proposes a constitutional amendment that would exempt from property tax owner-occupied residences of persons 75 years of age or older whose income, including income of their spouse and dependents, is \$15,000 or less. The income level would be indexed for inflation.

### FISCAL IMPLICATIONS

DFA notes that property value exemptions tend to have the effect of shifting property tax liabilities to other taxpayers. This is because debt service rates will be adjusted up to cover the amount of debt service approved by the voters. Operating rates will tend to adjust upward due to the operation of the yield control formula. However, some property tax beneficiaries are currently receiving a tax rate that cannot be adjusted upward. These entities may see a decline in their revenue. DFA also notes that these effects may be enhanced if a particular community has a large population of residents age 75 and over. In addition, state general obligation bond capacity is equal to 1 percent of total net taxable value so G.O. capacity will decrease by 1% of the decrease in taxable value under the proposal.

According to the Data Bank at the University of New Mexico, roughly 123,000 persons age 75 and over resided in the state as of 2008, approximately 8.6% of the population over 18. The total property tax shift appears to be on the order of 0.8% of residential taxable value, or \$250 million, under the following assumptions: persons over 75 = 5% of all homeowners; proportion below \$15,000 income = 15%; total residential net taxable value in property tax year 2012 = \$34 billion. Using these assumptions and assuming an average statewide property tax rate of 30 mills, the total amount of tax liability shifted statewide would be on the order of \$8 million. State General Obligation Bond capacity would decrease by approximately \$2.5 million. In addition to these impacts, some property tax beneficiaries who are up against their maximum tax rate would see a minor decrease in revenue. According to DFA these include: eleven hospitals, two watersheds, DeBaca County, Hidalgo County, City of Vaughn and City of Las Vegas. In addition, eighteen soil and water conservation districts that are not subject to yield control and are imposing the maximum rate allowed by law may see lower operating revenue.

### **SIGNIFICANT ISSUES**

#### **DFA:**

Currently, Section 7-36-21.3 NMSA 1978 allows for a limitation on increases in value of residential property owned and occupied by person who is sixty five years or older and whose annual modified gross income is thirty two thousand (\$32,000) or less. This amendment to the Constitution would be in addition to this specific section of statute, thus providing property tax relief to most residents older than sixty five, provided their annual modified gross income is less than thirty two thousand (\$32,000).

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

HJR 7 would exempt property of disabled persons with income less than \$15,000. SB 45 would limit the increase of taxable value when a taxpayer age 65 and over sells one house and buys another house within the same year.

TC/mew

***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](http://www.nmlegis.gov/lcs/lfc)***