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FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/10

SPONSOR Miguel Garcia LAST UPDATED _____ HJR 7

SHORT TITLE No Property Tax for Low-Income Persons CA SB _____

ANALYST Clifford

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY10	FY11	FY12		
		(6,000.0)	Recurring	General Obligation Bond Capacity
		(Indeterminate, probably small)	Recurring	Property Tax 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

House Joint Resolution 7 proposes a constitutional amendment that would exempt from property tax owner-occupied residences of “100% permanently disabled” persons 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. 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.

Information on the population of 100% disabled persons was not available for the preparation of this FIR. In a report titled “Americans with Disabilities: 2005” the U.S. Census Bureau estimates that about 33 million Americans over age 21 have “severe” disabilities. Pro-rated by total population, this would imply over 200,000 New Mexicans have severe disabilities. Census reports a poverty rate among the severely disabled of 27 percent. Assuming this population has a 35 percent home ownership rate rather than the population average of 70 percent, this suggests an eligible population of about 20,000 households. If this many households qualify, the reduction of total residential taxable value would be on the order of 2 percent, and this would also be the proportion of property tax shifted to other taxpayers. The dollar amount shifted would be on the order of \$20 million. State General Obligation Bond capacity would decrease by approximately \$6 million. These impacts are only rough approximations because the definition of eligible disabled is not sufficiently clear to enable a precise estimate.

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 persons age 65 and over 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.

TECHNICAL ISSUES

TRD notes that the term “one hundred percent permanently disabled person” should be defined, perhaps with reference to eligibility for federal benefits like social security disability income. This would streamline administration and improve targeting of benefits.

OTHER ISSUES

TRD notes:

New Mexico statutes currently assist low-income taxpayers in a variety of ways. A rebate against property taxes paid by low-income taxpayers aged 65 years or older is allowed under Section 7-2-18, NMSA 1978. It is provided to residents who own property, as well as to individuals who rent their principal places of residence. Section 7-2-14.3 NMSA 1978 provides for a county option rebate against property taxes. Section 7-36-21.3 NMSA 1978 eliminates assessed value increases on property owned and occupied by elderly low-income or disabled taxpayers. The New Mexico Constitution provides a \$2,000 head of household and a \$4,000 veteran’s exemption from property taxes. These also provide considerable assistance to low-income individuals.

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