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FISCAL IMPACT REPORT

SPONSOR: Aragon DATE TYPED: 3/15/03 HB _____

SHORT TITLE: Property Tax Exemption for NM Veterans, CA SJR 15

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
		See Narrative		

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC files

Responses Received From

Taxation and Revenue Department (TRD)

Veteran's Service Commission (VSC)

SUMMARY

Synopsis of Bill

Senate Joint Resolution 15 would allow honorably discharged veterans to claim the exemption *if* they were New Mexico residents at the time they entered military service irrespective of whether they served during periods of armed conflict. The proposed amendment would continue to allow all honorably discharged veterans that served during periods of armed conflict to claim the exemption irrespective of whether they were New Mexico residents when they entered military service. It would also provide the exemption to other honorably discharged veterans that did not serve during a period of armed conflict if they were New Mexico residents when they entered the service.

FISCAL IMPLICATIONS

TRD notes the following assumptions:

Approximately 80,000 New Mexico taxpayers currently receive the veteran exemption. Since the exemption removes \$2,000 per veteran from the tax base, approximately \$160 million in total residential net taxable value is removed from the tax base as a result of the exemption. Since the statewide residential tax rate averages about \$26 per \$1,000 in net taxable value, relief provided by the exemption averages about \$52 per veteran. Total tax relief provided by the exemption is approximately \$4.2 million annually – $\$52 \times 80,000$.

Allowing all veterans to claim the exemption would expand the number of claimants from 80,000 to approximately 100,000. According to census figures, roughly 177,000 veterans currently live in New Mexico but, on average, 70 percent of New Mexico's residential property is owner-occupied ($177,000 \times .7 = 123,900$). Hence approximately 124,000 veterans would be able to claim the exemption if *all* New Mexico veterans were allowed to claim it. The number of individuals that would qualify for the exemption under the proposed amendment would therefore probably total between 80,000 and 124,000. For the purposes of analysis, this review uses the figure 100,000.

Hence, after increasing the exemption from \$2,000 to \$4,000 and simultaneously allowing 100,000 veterans to claim it, the resulting reduction in base would be approximately $100,000 \times \$4,000 = \400 million. This is an increase over the baseline taxable value — assuming the adoption of the increase to \$4,000 -- of \$80 million. With the proposed exemption, veterans would have total tax relief of approximately \$10.4 million ($\$4,000 \times \$26/\$1,000 \times 100,000$) -- an increase of roughly \$2 million over present law plus the effects of 2002 Constitutional Amendment #1.

Tax Rate Adjustments:

The relief provided to veterans would be largely offset by rate increases for all residential taxpayers due to the loss in base. This would occur as the yield control mechanism increased operating rates due to loss in base referred to as "valuation maintenance", and as debt rates increased to offset base reductions.

Since the base reduction under this proposal would total \$80 million or about .5 percent of the current \$17.1 billion residential portion of the base, rates would, on average, increase by *roughly* .5 percent or less. There may be a few cases where rates would not be able to adjust, but they would be minor because 1) the base grows at about 2 to 3 percent annually, and 2) the exemption would increase gradually over a period of five years. Hence revenue losses to property tax recipients -- school districts, counties and municipalities -- would be insignificant.

Finally, it should be noted that, according to the Veterans Service Commission, approximately 8,000 disabled veterans will qualify for the total property tax exemption likely to emerge from this year's legislative session due to the recently approved constitutional amendment. As a result, effects of the proposed measure would be slightly less because some portion of the disabled veterans would qualify for the partial exemption that is the subject of the proposed legislation.

ADMINISTRATIVE IMPLICATIONS

TRD notes minimal administrative impact.

OTHER SUBSTANTIVE ISSUES

Senate Joint Resolution 1, enacted in the 2001 legislative session, allowed voters to consider an amendment to the New Mexico Constitution increasing the current \$2,000 veteran exemption to \$2,500 in tax year 2003, \$3,000 in 2004, \$3,500 in 2005 and \$4,000 in 2006, where it would remain. The amendment was approved by the voters in the fall of 2002.

SN/njw