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FISCAL IMPACT REPORT

ORIGINAL DATE 1/24/06

SPONSOR Taylor LAST UPDATED _____ HB _____

SHORT TITLE Municipal Property Tax Rebate SB 222

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	NFI	NFI	Recurring	Local Government
	NFI	NFI	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Duplicates HB 201

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)
 NM Municipal League (NMML)
 Department of Finance and Administration (DFA)

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 222 amends the property tax rebate in the Income Tax Act to allow a local option for municipalities. Currently, only counties have the ability to issue a property tax rebate to low-income residents. SB 222 also allows for municipalities to hold an election for the purpose of levying additional property tax up to a maximum of one mill (\$1.00 per \$1,000.00 of assessed value) to pay for the rebate to low-income residents.

The rebate is 75 percent of property tax liability for the lowest income scaling to 35 percent for taxpayers with modified gross income between \$22,000 and \$24,000 with a maximum credit of \$350.00. The rebate is also refundable which means that if the rebate exceeds the tax liability the taxpayer receives a refund of the remaining amount.

FISCAL IMPLICATIONS

TRD reports that there are no significant fiscal implications for state and local funding sources as the rebates will likely be a rare occurrence. Los Alamos County has so far been the only county to provide a rebate which totaled \$21,000 in 2004. Since the bill contains language that calls for an election to increase the property tax mill levy to pay for the rebate, the costs will be covered by the increased revenue in most cases.

The only eligibility criteria is modified gross income so low-income taxpayers who are over 65 years old will be eligible for both credits with an individual maximum of \$600 (\$350 for the low income rebate and \$250 for the low income over 65 rebate). Since it is a municipal credit and not a state credit, there would be no state fiscal impact.

ADMINISTRATIVE IMPLICATIONS

TRD:

Modest administrative impacts would be imposed on the Department by the proposed legislation. Personal income tax forms would, for example, need to be modified to allow taxpayers to claim the rebates. Changes in the state's computer system would also be necessary. Taxpayer education would also be required. Representatives of the Department of Finance and Administration's Local Government Division would also be required to modify property tax rate certificates to display the new debt-service rates resulting from the proposed rebate program.

DUPLICATION

HB 201 is a duplicate bill.

TECHNICAL ISSUES

TRD:

A few New Mexico municipalities extend across county boundaries. In such cases, if one county has adopted the current rebate system and another has not, the prohibition on the municipality adopting the proposed rebate if the county has already adopted it would mean that the proposed rebate could only be implemented in part of the municipality, creating numerous difficulties.

OTHER SUBSTANTIVE ISSUES

TRD:

Current statutes (Section 7-2-14.3 H) require counties to consider providing the rebates in every odd-numbered year in which they are not currently providing them. Counties often request estimates of the numbers of taxpayers that would qualify for the rebates. This is problematic because data available to the Department does not contain information on modified gross income by county (or municipality) that can be linked with property tax liability. Counties may be reluctant to provide the rebates because they have no way of generating accurate estimates of their net fiscal impacts, i.e., revenue raised with one-mill rate impositions compared with the likely amount of the personal income tax rebates.

ALTERNATIVES

The property tax rebate for low income taxpayers who are over 65 years old allows credit for renters as well as owners with an implicit assumption that 6 percent of rent is passed-through property taxes from the landlord. This feature could be added by adding language to include renters.

NF/yr