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

SPONSOR Park **ORIGINAL DATE** 02/08/10 **LAST UPDATED** **HJR** 12

SHORT TITLE Property Tax Valuation Upon Owner Change, CA **SB**

ANALYST Clifford

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY10	FY11	FY12		
NFI	NFI	($3,400.0)	Recurring	General Obligation Bonding Capacity

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Joint Resolution 12 proposes to amend the constitution to require that residential property would not be re-assessed solely because a property has changed ownership. In addition, any value limitation imposed by local option would have to be authorized by the legislature and would have to allow a process to apply statewide or multijurisdictional tax rates in proportion to the current and correct value of the property.

FISCAL IMPLICATIONS

If the voters were to approve the proposed constitutional amendments, residential properties would not be revalued solely because of change of ownership. If this provision were added to present law, which limits annual assessed value growth to no more than 3 percent, the result would be a reduced rate of growth of total residential net taxable value. LFC estimates the reduction to be about 1 percent per year. Most property tax levies would adjust to offset the effects of lower value growth, so local government revenues would be held harmless. Some shifting of the tax burden in the future would take place, with new owners seeing lower taxes and existing owners seeing slightly higher taxes. The lower growth would also reduce state general obligation bonding capacity, because the latter is determined as 1 percent of net taxable value.

SIGNIFICANT ISSUES

The proposal addresses the "property tax lightning" problem. The lightning refers to fact that, whereas property assessments can increase by no more than 3 percent per year while a property is retained by the same owner, assessed value increases to market value when the property is sold. In addition to creating an unfair system, economic research supports the conclusion that such "acquisition value" property tax systems reduce the rate of turnover of properties, creating inefficiency in the housing market.

Two judges in the Second District Court have ruled that the present law limitation on assessed value increases in section 7-36-21.2 is unconstitutional because it creates a distinction between taxpayers based on when they purchased their house which is not explicitly authorized in the constitution. The 1998 amendment that created subsection B of Article VIII, Section 1 authorizes the legislature to limit annual increases in property value based on "owner occupancy, age or income."

Because of the variability of local housing markets, impacts of tax lightning vary significantly across jurisdictions.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bills 45, 46 139 and 217 and House Bills 132 and 263 amend the present law statutes limiting annual increases in residential property values.

OTHER SUBSTANTIVE ISSUES

TRD notes that the constitution currently stipulates that local option limits must be applied in such a way that multijurisdictional rates are applied as if valuation limits did not apply. The intent is to prevent shifting the tax burden to other jurisdictions. The proposal would have a similar effect, but would require that the multijurisdictional rates be applied to current and correct market values, i.e. to values before the application of any limitation.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Consequences of legislative inaction on the residential property value issue are unclear but potentially significant. At a minimum the state faces significant uncertainty entering the 2010 property tax year with numerous protests and refund claims already being filed on the grounds that the present law 3 percent value limitation is unconstitutional. Possible outcomes include a finding by higher courts that the entire section 7-36-21.2 is unconstitutional. Such an outcome would appear to require that assessors bring all properties to current and correct, increasing values for more than half of the property owners in the state.

TC/mt

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