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## FISCAL IMPACT REPORT

**ORIGINAL  
DATE LAST** 02/15/11

**SPONSOR** Gonzalez **UPDATED** \_\_\_\_\_ **HB** 327

**SHORT TITLE** Property Value, Certain Tax Credits Accepted **SB** \_\_\_\_\_

**ANALYST** Golebiewski

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	(\$200.0)		Recurring	General Obligation Bond Capacity

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)  
Attorney General's Office (AGO)

### SUMMARY

#### Synopsis of Bill

House Bill 327 amends the Property Tax Code to expand on the special method of valuation for affordable housing stating that the assessor "shall not consider the value of federal income tax credits awarded under Section 42 of the Internal Revenue Code, as that section may be amended or renumbered, in determining the value of low-income housing property."

### FISCAL IMPLICATIONS

TRD:

Using national data on the low-income housing tax credit, the total value of credit-funded property in New Mexico is estimated to be on the order of \$60 million. This translates into \$20 million of taxable value, or less than 0.1 percent of total residential net taxable value statewide. The proposal would reduce the property tax base by this amount. Local impacts of the proposal would be more significant in those communities with most of the credit-funded property and less significant elsewhere. Reducing the residential property value for some properties would result in increased tax rates for other residential

properties and for non-residential properties. Local revenues would be largely held harmless. Reducing the net taxable value base would reduce state general obligation bond capacity by 1 percent of the decrease. This amount would be on the order of \$200,000.

### **SIGNIFICANT ISSUES**

TRD:

The proposal creates a trade-off between the goals of low-income tax relief vs. revenue adequacy for local governments. The proposed exemption for tax-credit funded property is significantly different from the current law exemption for affordable housing subsidies. The latter are designed to prevent taxpayers from paying taxes on that portion of their housing that they don't own. In contrast, the proposal would exempt a portion of the owner's equity in the property. In this sense, the proposed expansion is less justifiable than the existing exemption in terms of the goal of targeting tax relief to low-income individuals. On the other hand, it is possible that some of the proposed tax relief would be passed through to low-income households renting units in the credit-funded property.

### **ADMINISTRATIVE IMPLICATIONS**

TRD:

County Assessors would have to review the capitalization structure of affordable housing projects in a position to benefit from this legislation. Project specific financial analysis, rather than cost or mass appraisal methodology would constitute a burden for several counties including Santa Fe, Taos, Bernalillo, San Juan, Los Alamos, Dona Ana and Eddy Counties. There are scattered projects throughout New Mexico, but these are the only counties that have informed the Property Tax Division of issues relating to affordable housing.

### **TECHNICAL ISSUES**

TRD:

The applicability date is retroactive to property tax year 2010, which would imply that taxpayers have to claim refunds for tax payments that have already been made. This could create shortfalls in some local budgets because there is not time to adjust local property tax rates in the current tax year.

***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)***