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## FISCAL IMPACT REPORT

**ORIGINAL DATE** 03/04/11

**SPONSOR** Sanchez, B.                      **LAST UPDATED** \_\_\_\_\_                      **HB** \_\_\_\_\_

**SHORT TITLE** Certain Property Tax Reductions, CA                      **SJR** 13

**ANALYST** Golebiewski

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	*	*	Recurring	Property tax beneficiaries and GO Bond Capacity

(Parenthesis ( ) Indicate Revenue Decreases)

TRD:

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2011	FY2012	FY2013	FY2014	FY2015		
--	--	(***)	(***)	(***)	R	Property tax beneficiaries
--	--	(***)	(***)	(***)	R	G.O. Bond capacity

\* In thousands of dollars. Parentheses ( ) indicate a revenue loss.

\*\*\*See Fiscal Implications section below.

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Attorney General's Office (AGO)

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

Senate Joint Resolution 13 proposes a constitutional amendment to allow the legislature to provide by law a reduction in the total amount of state and local property taxes levied upon owner-occupied residential property that has been occupied continuously for at least 15 years by the same individual as that person's principal residence. The reduction shall be 5 percent of the property taxes that would otherwise be levied on the property. For each additional year that the property has been continuously occupied by the individual, the amount shall be increased by an additional 5 percent of the property taxes that would otherwise be levied on the property, up to a maximum reduction of 25 percent. The reduction may be authorized statewide or at the option

of a local jurisdiction. The burden of proving eligibility for the deduction in this section shall be on the person claiming the deduction.

### **FISCAL IMPLICATIONS**

\*\*\*If adopted by the voters, the proposal could create a reduction of residential net taxable value. This would lead to an upward adjustment of operating and debt service levies, effectively shifting property tax liability from long-term owners to other taxpayers. Census bureau data indicate that about 70 percent of the New Mexico population own their home, and that about 25 percent of the population have resided in the same home for over 15 years. Multiplying this proportion of the residential property tax base by 5 percent would reduce net taxable value by about 1 percent. This would grow by another 1 percent with every year that passed up to a maximum of about 5 percent under the provisions.

### **SIGNIFICANT ISSUES**

Though any effect of SJR 13 would be dependent on the results of a vote by the electorate, the proposed reduction of property taxes for certain property owners could dramatically change the property tax incidence on all owners in a locality. Yield control would raise the tax rates in response to this change in taxes collected from property taxpayers. This would increase the property tax bills of residential property owners who have not met the minimum residency requirements.

More importantly, this could introduce a significant amount of economic distortion into the New Mexican economy. For example, whereas property owners may want to move to smaller residences at an older age, they would have an incentive provided through the property tax to avoid making this decision. There are many similar examples, but awareness of these distortions is important to the evaluation of the property tax reductions as proposed in SJR 13.

TRD:

The proposal would introduce disparities into the valuation of residential property for different households based on their tenure of ownership. This violates the tax policy principle of equity which states that taxpayers should be treated in a similar manner.

### **ADMINISTRATIVE IMPLICATIONS**

TRD:

Determining how long a homeowner has occupied their home would create a significant new administrative obligation for county assessors. Calculating liabilities before and after the proposed tax reduction would require a significant recurring administrative responsibility for county treasurers.

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Related to SJR 9 and SJR 15.

**TECHNICAL ISSUES**

TRD:

Because it would limit tax levies rather than assessments, the proposal would require a calculation be performed every year for the affected properties.

JAG/mew

***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)***