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## FISCAL IMPACT REPORT

ORIGINAL DATE 2-26-09

SPONSOR Duran, D. LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Property Tax Increase Disclosure Information SB 564

ANALYST \_\_\_\_\_

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>		Minimal			Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 564 proposes to enact a new section of the Property Tax Code to require county assessors to provide, upon request, a property tax declaration that would tell potential buyers their estimated property tax if they buy a property for its asking price.

A property owner must provide a written request for the declaration, stating that a property is for sale and listing the asking price.

The declaration is required to have a signature line for the seller and buyer and to include the following:

- 1) the date the declaration was prepared;
- 2) the address of the property;
- 3) the legal description, the current legal owner;
- 4) the assessed valuation,
- 5) amount of the current property taxes,
- 6) the price at which the property is marketed for sale, and
- 7) an estimate of the amount of future property taxes that might be imposed based on the price at which the property is being marketed for sale and the current property tax rate..

The bill requires the Taxation and Revenue Department (TRD) to develop a standardized property tax declaration format for county assessors to use.

The bill also adds a subsection to other portions of the Property Tax Code and the Real Estate Disclosure Act describing these procedures for the declaration.

### **FISCAL IMPLICATIONS**

This bill has no revenue impact; however, there may be a minimal additional operating budget impact for promulgating rules, developing the declaration, and the application of a uniform statewide policy.

### **SIGNIFICANT ISSUES**

The annual increase in the value of principal residences for property tax purposes is limited to 3%. This 3% limit does not apply in the year a home is sold, instead for property tax purposes the value rises to its “current and correct” value. Because the cumulative effect of the 3% limit has resulted in valuations for many homes that are below “current and correct”, purchasers may pay substantially more property tax for a newly-purchased home than did the sellers.

The 3% cap on property tax increases for existing owners has been in place since 2001. When people buy a home, however, they are not protected by the cap until after the property is brought to "current and correct" assessed values - at least 85 percent of its market value. The result has been that some people pay significantly more in property taxes than neighbors with similar homes. By letting a prospective buyer know that the property tax bill they receive may be quite different than what has been researched in the neighborhood by a real estate agent, the buyer will know in advance that they may have a higher property tax bill. Recent history has found buyers settling into a new home only to discover a year later that their property tax bill, based on one third of the valuation of the property is much higher than what was researched and found to be the neighborhood property taxes at the time of purchase. The buyer did not know that taxes on the property could increase significantly because nobody told them or was required to do so.

New Mexico does not have purchaser disclosure requirements. This bill is an attempt to bring awareness to the purchaser that property tax imposed may be potentially higher than the tax imposed on the prior owners.

### **RELATIONSHIP**

Relates to HB34, HB251, HB261, SB181,

### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

By not implementing disclosure laws, purchasers will not be aware of the higher tax bill that will be imposed on the new buyer and may face potential financial hardships when faced with a property tax bill substantially higher than the prior owners.

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