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FISCAL IMPACT REPORT

ORIGINAL DATE 3/2/15
LAST UPDATED 3/11/15 **HJR** 14

SPONSOR Trujillo, J

SHORT TITLE Increase Veterans Property Tax Exemption, CA **SB** _____

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19	FY20	FY21		
	NFI				Recurring	Property Tax Beneficiaries, Operating Rates
					Recurring	Property Tax Beneficiaries, Debt

(Parenthesis () indicate revenue decreases)

This Constitutional Amendment has no direct fiscal consequences. See “Fiscal Implications” below.

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	NFI	>15.2	>15.2	Recurring	

The Secretary of State notes the cost of conducting an election for a constitutional amendment.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department, Property Tax Division (TRD/PTD)

SUMMARY

Synopsis of Bill

House Joint Resolution 14 proposes a Constitutional amendment that would increase the Veteran’s Property Tax exemption from the current \$4,000 per household to \$8,000 per household.

The effective date of the act is not stated – assume 90 days after adjournment or June 19, 2015. The amendment would be submitted to the people for their approval or rejection at the next general election or at a special election called for the purpose. We assume that the question would be on the ballot in November 2016.

FISCAL IMPLICATIONS

This CA would be presented to the voters in November 2016 and if passed enabling legislation would be enacted in the 2017 session. This would possibly affect the 2017 Taxable Year values which are set as of January 1. The valuation notices are due to be mailed by April 1. Property tax rates are set in August, so the first impact on tax bills of this CA would be November 2017. Exemptions would be recognized and yield control rates would adjust revenues effective with payments due November 2017 (FY 2018).

The Veterans Administration (VA) indicates that there are 177 thousand veterans in New Mexico. The average age of these veterans is 56. Overall, 68.6 percent of New Mexico's adult population are homeowners. Adjusting for veteran's age and overall home ownership rate, we can calculate that 77 thousand of the 177 thousand veterans are homeowners. The average residential mill rate is about 32 mills, or \$32 per \$1,000 of taxable value. Although there are several technical issues that would be resolved with implementing legislation, we assume that all veterans will qualify for this exemption, even when there are two veterans in a single household, and that the veteran's deduction is deducted from taxable value, not assessed value. Thus, $77,000 \times \$4,000 \times \$32/\$1,000 = \9.0 million. Taxable values would decline from about \$56 billion to about \$55.7 billion. This would not affect yield control in all but a very few communities. Thus, the various jurisdictions around the state would lose about \$10 million out of total obligations of \$1.65 billion.

The Secretary of State indicates the following:

“Under Section 1-16-13 NMSA 1978 and the NM Constitution, the SOS is required to print samples of the text of each constitutional amendment, in both Spanish and English, in an amount equal to ten percent of the registered voters in the state. The SOS is also required to publish them once a week for four weeks preceding the election in newspapers in every county in the state. In 2014, the SOS estimated the cost per constitutional amendment to be \$15,217. However, if the ballot size is greater than one page, front and back, it would increase the cost of conducting the general election. In addition to the cost of the ballot, there will be added time for processing voters to vote and would mean additional ballot printing systems would be required to avoid having lines at voting convenience centers.”

CA's are placed on the general election ballot. The next general election will be held in November, 2016, so the fiscal impact should be reflected in FY18.

This bill may be counter to the LFC tax policy principles of adequacy, efficiency, accountability and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

About 19 percent of New Mexico’s veterans have a service-related disability. About 40 percent of those veterans with service-related disabilities have a disability rating of 70 percent or higher.¹

The New Mexico Constitution (Article 8, Section 5) currently allows a \$4,000 limit on the net taxable value of the property of an eligible veteran, including community or joint property. The veteran’s exemption may apply to residential and commercial real property and may also be applied to the veteran’s vehicle registration. This exemption may also extend to the veteran’s widow or widower. The veterans’ exemption was last amended back in November 2, 2004 and was amended to give an increase of the exemption in increments from \$2,000 to \$3,000 in 2004; \$3,500 in 2005; and \$4,000 in 2006 which is the current limit of the exemption. This proposal would double the exemption from \$4,000 to \$8,000.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

If the constitutional amendment were approved by the voters, the administrative impact of any implementing legislation would be minimal to the assessor’s offices. The assessors would have to take steps to insure that all eligible veterans had the correct amount calculated when Notices of Value were mailed out.

Because constitutional amendments become effective when they are passed by the voters, the timing could conflict with making changes for the current tax year. January 1 is the valuation or property tax lien date (NMSA 7-38-7). April 1 (NMSA 7-38-20) is the date by which County Assessors are required to mail their Notices of Value to their taxpayers. Having said that, other property tax exemptions have been successfully enacted, and they would likely apply to the following property tax year.

RELATIONSHIP

A number of other bills address issues of veterans and property taxes. HB 557, SB 212, SB 248 and SB 506 are related.

TECHNICAL ISSUES

About 9 percent of New Mexico’s veterans are female. An unknown number of veterans are married same-sex couples. It is unknown whether a married couple – both veterans – qualify for one exemption or two. The head of family exemption is clearly allowed once per residence.

LG/bb/je

¹ https://www.jobs.state.nm.us/admin/gsipub/htmlarea/uploads/2013_Veterans_Profile.pdf