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

ORIGINAL DATE 3/1/15
SPONSOR Smith **LAST UPDATED** **HB**

SHORT TITLE Tax Valuation of Certain Property **SB** 654

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
	NFI	NFI	NFI	NFI	Recurring	Property Tax Beneficiaries, Operating Rates
	NFI	NFI	NFI	NFI	Recurring	Property Tax Beneficiaries, Debt

(Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department, Property Tax Division (TRD,PTD)

SUMMARY

Synopsis of Bill

Senate Bill 654 removes a variably enforced provision of the property tax code. One of the current provisions of section 7-36-33 NMSA 1978, the section that imposes property tax on tangible business property, is a requirement that salvage value of depreciable assets valued in that section is at least 12.5 percent of basis. This bill repeals the reporting and assessing of the salvage value of these assets.

The effective date of the act is January 1, 2016, so will be applicable for valuation for the 2016 Property Tax Year.

FISCAL IMPLICATIONS

Assessing tangible personal property for property tax purposes is difficult. See "Significant Issues" below for a description of the difficulties. Because of these difficulties, it is likely that neither the average business taxpayer, nor the assessor has made any attempt to enforce this minimum salvage value rule. Repealing the requirement will not reduce revenue to any noticeable extent, but may remove some cases from the property tax protest files. LFC staff score this bill as NFI for all beneficiaries. For the few jurisdictions for which this is an issue, any loss of value will filter through the non-residential yield control formula (7-37-7.1 NMSA 1978) and be considered valuation maintenance which might lead to an upward adjustment of operating rates.

SIGNIFICANT ISSUES

Pursuant to current practice, county Assessors ask for a copy of a business's depreciation schedule for all businesses that have county business licenses. They then use this schedule verbatim to assess business tangible property for property tax purposes. Most business taxpayers in New Mexico prepare a common list of depreciable assets for accounting purposes and tax purposes. However, the various income tax-based rules are voluminous and complex. Class life, accelerated depreciation, Section 179 election, salvage value convention, and numerous other decisions face the business taxpayer. For the most part, the assessors are not experts in federal income taxation, and cannot be expected to evaluate a depreciation schedule submitted by a business taxpayer or to maintain a cumulative asset list for each county taxpayer.

Note: this section does not apply to oil and gas property taxed under the Ad Valorem Production Equipment Tax statute (7-34-1 through 9 NMSA 1978).

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is <u>not</u> met since TRD is <u>not</u> 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

None on the state. If this bill is not enacted, there may be an effort by County Assessors to enforce the salvage value provision.

LG/bb/aml