NEW MEXICO
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Preventing "Property Tax Shifting" from Existing to New Homeowners

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NMTRI Principles of Good Tax Policy

- Adequacy
  - Revenues should be sufficient to fund needed services
- **Efficiency**
  - Interference with the private economy should be minimized
- **Equity**
  - Taxpayers should be treated fairly
- Simplicity
  - Laws, regulations, forms and procedures should be as simple as possible
- Comprehensiveness
  - All taxes should be considered when evaluating the system
- Accountability
  - Exceptions should be rare and should be carefully evaluated and justified

“Property Tax Shifting”

- Yield control guarantees that tax revenue will increase by 5% per year*

- 3% Limit on assessed value increase applies only to existing homeowners, not to owners of newly-purchased homes.

- The yield control revenue target is not reduced by the tax savings of existing homeowners.

- **Tax savings of existing homeowners must be made up in increased taxes paid by owners of newly-purchased homes creating “Property Tax Shifting”.**

*Or by the Price Index for Local Government services, whichever is less.
Revenue can also increase due to new construction.

Consequences of Tax Shifting

- Owners of new homes – both existing and newly-constructed – pay higher property taxes than they would pay in the absence of the 3% limit.

- Even some property owners whose value is limited by the 3% limit pay higher taxes than they would in the absence of the limit. The lower the growth of market value of property, the less benefit.

- Tax differences are inequitable and cause inefficiencies in the housing market. Owners are encouraged to “lock in”, i.e. not sell and move when they would otherwise prefer to do so.

Preventing Tax Shifting: Complete Solution

Eliminate the difference in assessed value between existing and newly-purchased homes:

Option 1:

Repeal 3% limit completely and value all homes at current and correct value – Constitutional Amendment required?

Option 2:

Limit the value of <u>all</u> homes, including those that are re-sold and new construction (e.g. Oregon; SB 695 2007 Legislative Session with modifications to accommodate new construction)

Preventing Tax Shifting: Partial Solution

- Retain the difference in assessed value between existing and newly-purchased homes
- Prevent <u>some</u> tax shifting by **equalizing rate of assessed value growth with rate of revenue growth allowed in yield control**:
  - Option 1: Raise the allowed growth of assessed value from 3% to the yield control rate
  - Option 2: Lower the growth rate in yield control to 3%

Potential Fiscal Impacts: Complete Solution

Option 1:

- Repealing 3% limit would result in sizable immediate increases in total assessed value.
- Yield control would adjust rates downward so that total revenue is unchanged.
- Debt service rates would also adjust downward.
- Households whose current assessed value/correct value is below average would see a net tax increase and vice versa.

Option 2:

- Limiting all values would reduce the growth of assessed value over time.
- Yield control would adjust rates so that revenue is unchanged.
- Debt service rates would adjust upward. New debt capacity would grow more slowly.

Potential Fiscal Impacts

Option 1:

- Raising the 3% growth rate to the yield control rate will allow assessed value to grow more quickly.
- Yield control will reduce tax rates so that revenue is unaffected.
- Debt service rates will adjust downward. New Debt capacity will increase.

Option 2:

- Lowering the yield control revenue growth rate would reduce revenue growth.
- Debt service would be unaffected.