



## *Property Tax In New Mexico: Major Issues and Possible Solutions*

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Presented to

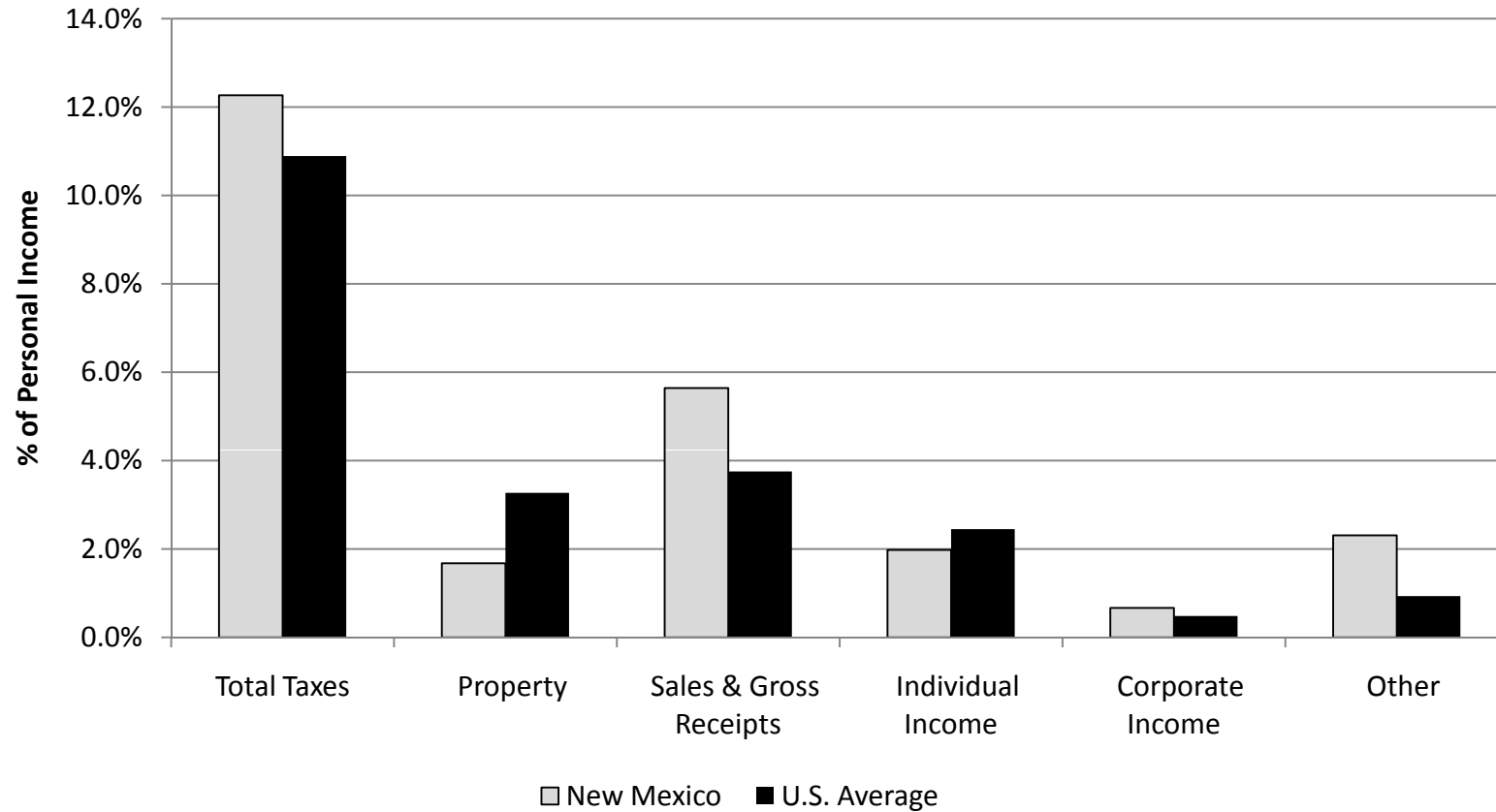
Revenue Stabilization and Tax Policy Committee

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## *Overview*

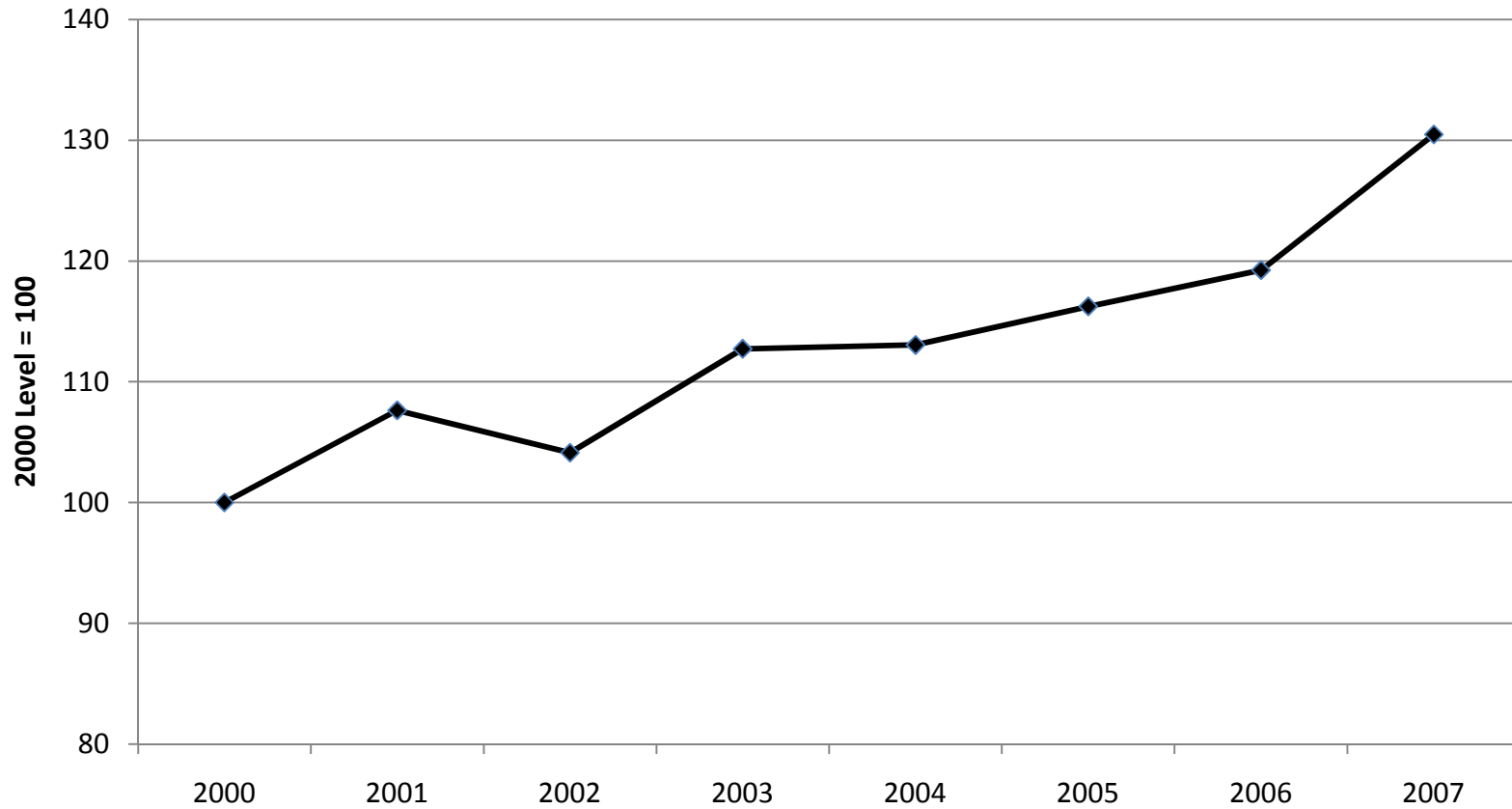
- New Mexico property taxes are low compared with most other states.
- Residential property tax liabilities have risen sharply since 2000, despite yield control and the 3% value limit.
- Under the yield control statutes, value limits on residential properties cause tax rates to be higher.
- Value limits on residential properties have shifted tax liability from existing home owners to new homeowners, sharply increasing tax liabilities for the latter.

## 2006 State & Local Taxes: NM vs. U.S. Average



*Property taxes are significantly lower than in other U.S. states  
Difference – 1.6% of Personal Income – equals \$1.1 billion per year  
Source: U.S. Census of Governments*

### ***Change in Real Per Capita Residential Property Taxes Since 2000***



*Residential Taxes increased by almost 1/3 after adjustment for population growth and inflation  
Yield control allowed growth of over 4% per year and new construction added another 4%*

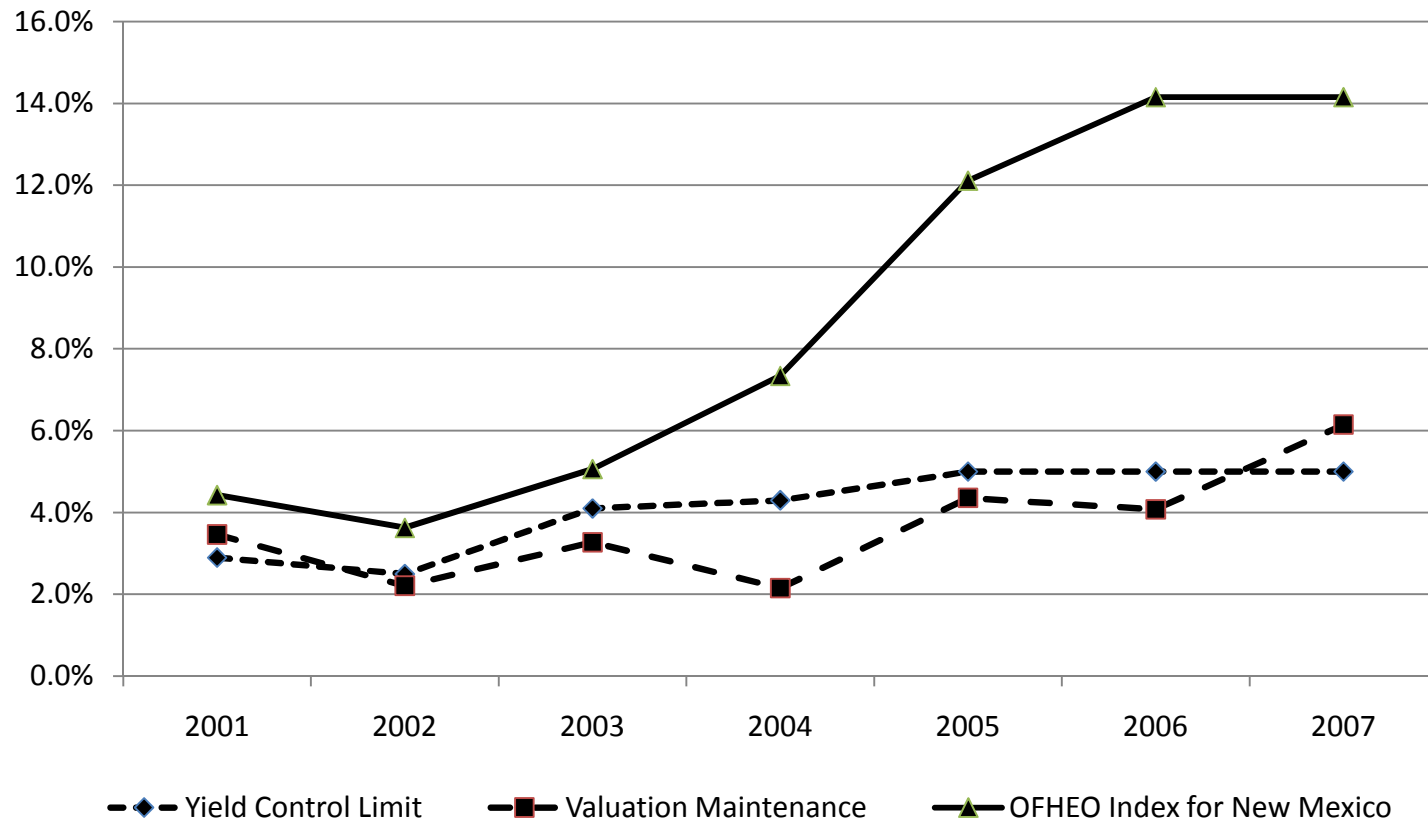
## *Yield Control Mechanism*

<b>Relation of Taxable Value Growth to Government Service Price Index:</b>	<b>Yield Control Adjustment:</b>
Value Growth Less Than Price Index	Increase Levies*
Value Growth Equal To Price Index	No Change
Value Growth Greater Than Price Index	Decrease Levies

Yield control adjusts rates -- both upward and downward -- so that revenue increases by the Government services price index up to a maximum of 5%.

\*If levy has been decreased by yield control in the past, which has happened in all but five counties.

## *Assessed Values are 1/3 Less than Market Values*



- *Assessed values grew by less than the Yield Control limit, pushing tax rates up*
- *Market values rose by more than the Y/C limit, so rates should have decreased*

## *Impacts of Limiting Taxable Value on Yield Controlled Tax Rates*

- Value limits on existing homes reduce total assessed value. Under yield control, lower assessed value causes higher tax rates.
- For existing homeowners, lower values offset the effects of higher tax rates and liabilities go down.
- For owners who have newly-purchased existing homes – and also purchasers of newly-built homes -- higher rates are applied to correct market value and tax liabilities are higher.
- The differences are significant, liabilities as much as 25% higher than if there were no value limit. *This equals over \$4,000 in present value on a \$200,000 house.*
- Higher property taxes reduce demand for new homes and discourage sales of existing homes.

## *Possible Solutions: Repeal or Modify 3% Value Limit*

- Yield control will limit total revenue increase.
- On average, existing owners would see a slight increase – less than 1%. Owners with values below average would see tax increases, and vice versa.
- Could further limit homeowners' tax liabilities through an increased head of household exemption.
- Short of repealing the 3% limit, raising the allowed value growth to 5% would reduce distortions over time, although existing distortions would remain.

## *Possible Solutions: Modify Yield Control*

- Include new construction in yield control.
- Limit revenue growth to the lower of yield control or assessed value growth.
- Limit revenue growth under yield control to inflation plus population growth.
- Although these approaches would reduce the rate of growth of residential property tax liabilities, they would not address the inequities and inefficiencies arising under the current system.

## *Recommendations for 2009 Legislative Session*

- In order to evaluate both the current system and proposed alternatives, much more and better information is needed.
- The Legislature could appropriate funds for computerized assessment systems.
- The Legislature could request a study of property tax with the following goals:
  - Collect and present detailed information on the role of value limits and yield control
  - Analyze possible alternative policies including modifications to the value limit and/or to yield control
  - Present findings to the 2011 Legislative session.
  - Require support from Property Tax Division, Local Government Division , Public Education Department, Department of Higher Education and from County Assessors.