

House committee advances bill to curb some property tax breaks



By Thom Cole | tcole@sfnewmexican.com - Feb 28, 2019 Updated Mar 1, 2019

A state House committee on Thursday approved legislation to eliminate a property tax break enjoyed by some owners of residential rental properties and second homes in New Mexico.

The Local Government, Land Grants and Cultural Affairs Committee OK'd the bill on a party-line vote, with Democrats backing the measure and Republicans opposing.

The measure would result in all residential rental properties and second homes being taxed at full market value. Some of those properties are now receiving large tax breaks because of a provision in state law that caps annual increases in market valuations.

The result of the legislation would be higher taxes for some rentals and second homes but not for properties already taxed at full market value. Taxes could even drop for some owners.

Republicans said they were concerned that landlords hit by higher property tax bills would pass along the cost to renters.

“This bill is a detriment to lower-income people,” said Rep. Rachel Black, R-Alamogordo, a member of the House committee.

But supporters countered that the legislation, House Bill 647, would help address the unfairness that has resulted from a law enacted in 2001 with the goal of preventing longtime homeowners in gentrified neighborhoods from being taxed out of their residences because of rising property values.

Under the law, the market value of a residential property cannot be increased more than 3 percent a year as long as the owner remains the same. A residential property that changes hands and new construction are initially taxed at full market value but are subject to the 3 percent cap in future years.

The law has resulted in recent buyers of residential properties often paying substantially more in property taxes than longer-term owners of similar properties.

The legislation approved by the House committee would not remove the property tax break for owner-occupied primary residences.

The New Mexican reported Feb. 10 on the inequities that have resulted from the 2001 tax breaks.

The newspaper identified several rental properties and second homes in Santa Fe receiving large tax breaks due to the 3 percent cap.

A California real estate investment company that owns a south-side apartment complex saw a \$42,000 tax cut last year, and a Texas oilman received a \$10,500 tax break on his \$3.4 million estate on one of the city's most exclusive streets.



The newspaper also identified newer buyers of rental properties and homes, including affordable housing, that received no tax cuts. Most owners of multifamily properties in Santa Fe didn't get a tax break in 2018 because of the 3 percent cap.

Christie Humphrey, deputy assessor for Torrance County, told the House committee that the 3 percent cap wasn't enacted to benefit corporate owners of rental properties.

"It was meant for the little old lady in Santa Fe who was being taxed out of her home," Humphrey said.

Rep. Matthew McQueen, a Galisteo Democrat and sponsor of the bill to roll back the tax break for rentals and second homes, disputed that landlords hit with higher tax bills would pass along those costs to tenants.

McQueen also said owners of new rental properties are at a competitive disadvantage because they must pay higher taxes than landlords who have owned their properties longer.

He said owners of rentals and second homes whose properties are now taxed at or near full-market value could see tax reductions under his legislation. That's because counties would be able to tax the full market value of properties now benefiting from the 2001 tax break.

Under McQueen's bill, the property tax break for rentals and second homes would end in 2021. But several Democrats on the House committee said they want the elimination of the tax cut to be phased in to prevent a jolt to the rental market.

Immediately after the committee meeting, the lawmaker began discussing with county assessors how to address those concerns.

The president of the Apartment Association of New Mexico, which has opposed McQueen's bill, has said the group is open to a gradual removal of the tax break.

The property tax legislation, with a little more than two weeks left in the Legislature's annual regular session, now moves to the House Taxation and Revenue Committee.