How Tax-Friendly is Your City?

New Mexico's 10 Largest Cities Ranked by Tax Burden
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By Marcos P. Portillo with Paul Gessing

Introduction

There are many factors that influence an individual's decision on where to live. Personal preferences such as geographical location, community size, school quality, weather, and lifestyle are understandably some of the most important factors. However, the economic environment plays an increasingly significant role in deciding on location such as the cost of living, the burden of taxes that hit an individual's pocketbook and the policies and economic conditions that create employment opportunities.

Many of these economic factors are frequently ignored in favor of the blanket "I moved for a job" statement. Left unmentioned is the fact that the location of those jobs is often directly related to issues of taxation.

Numerous studies are emerging among various states on the significant influence tax policy has on a person's decision on where to live. According to Arthur Laffer and Stephen Moore of the American Legislative Exchange Council, "from 1998 to 2007, more than 1,100 people every day moved from the nine highest income-tax states...and relocated mostly to the nine tax-haven states with no income tax."[1] Since people take into account employment, wages, and relative cost of living, it is perfectly understandable that tax policy is just as important.

Tax policies can directly contribute to the economic health (or poverty) of a community. Policy-makers who support high taxes often justify them by portraying the wealthy as undeserving of such wealth and that the taxes are needed to support the poor. However, when people flee an area due to overbearing taxes, it is mostly those individuals that leave that have the capital and the entrepreneurial talent. The same skills and capital funds needed to create economic growth in an area—thereby helping all citizens of the community—instead, is being utilized by a city elsewhere. Tax revenue falls and the government has even less money to help the poor and disadvantaged—the very people the policy was intended to help.

A recent study of Maryland demonstrated this when it found that tax hikes on the rich resulted in 31,000 residents leaving the state during the period from 2007-2010. Florida, a no-income-tax state, was a large recipient of those fleeing. The report estimated the state lost about $1.7 billion in tax revenue.[2]

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[1] "Soak the Rich, Lose the Rich". Arthur Laffer and Stephen Moore. http://online.wsj.com/article/SB124260067214828295.html

[2] Robert Frank, "In Maryland, Higher Taxes Chase Out Rich: Study," CNBC, July 9, 2012, http://cnbc.com/id/48120446/In_Maryland_Higher_Taxes_Chase_Out_Rich_Study

The same dynamic can also apply to cities. The purpose of this study is to identify which cities in New Mexico have the lowest and highest tax burdens. Since state-collected taxes such as income and severance are not considered, this study will not account for the entire tax burden. Rather, it focuses on property tax and gross receipts tax, which make up the majority of the tax burden that varies by municipality. Additionally, instead of accounting for all cities, this study focuses on the relative tax-friendliness of the 10 largest cities in New Mexico. Combined, the population of these ten cities—as shown in Table 1—accounts for almost half of New Mexico's population.

Table 1. 2011 Population Estimate of New Mexico's 10 Largest Cities[3]

City	Population
Alamogordo	31,327
Albuquerque	552,804
Carlsbad	26,296
Clovis	38,776
Farmington	45,256
Hobbs	34,488
Las Cruces	99,665
Rio Rancho	89,320
Roswell	48,546
Santa Fe	68,642

The Rio Grande Foundation published the original tax-friendliness study in 2007. In the 2009 study, the methodology was improved to provide a more accurate measurement of tax burden. This 2012 study utilizes a similar methodology as in 2009 with slight adjustments to provide better accuracy.[4]

However, this report should be taken as general guidance relating to overall levels of the taxes studied. Information in this report is the most recent available and does not necessarily represent any particular snapshot in time or an individual's likely tax burden. The report does illustrate general trends in taxation and relative burdens.

Property Tax

The New Mexico Department of Taxation and Revenue separates property taxes into five main categories: state, county, municipal, school district, and other. Within these categories, rates are either operational or non-operational. Revenues from operational rates are used by each county, municipality, and school district for purposes such as equipment, salaraies, and facilities. These rates are decided by county commissions, munipal councils, and school boards, but are subject to yield control.[5] Non-operational rates are mainly debt service for bonds, but also include services

[3] 2011 Population estimates derived from the U.S. Census Bureau: http://quickfacts.census.gov/qfd/states/35000.html

[4] A baseline year (2009) was used for all home value calculations. Additionally, 2010 consumer expenditure data, adjusted for income level, was used.

[5] Yield control prevents operational tax revenue from growing more than 5% each fiscal year. See Section 7-37-7.1 NMSA 1978.

such as local hospital or soil and water conservancy. All non-operational rates are determined by voters but are subject to limitations.[6]

New Mexico collects property tax at both the state and local level, although local governments collect a considerable amount more than the state. In 2009, local governments collected 32 times what the state government did in property tax.[7]

Property tax rates are often expressed as a millage rate. For example, a rate of 37.000 mills means that for every $1,000 of net taxable value, $37 in taxes are collected. Table 2 shows how millage rates vary substantially from one city to another.

Table 2. 2012 Residential Property Tax Rate by City

City	Residential Property Tax Rate
Santa Fe	20.091
Carlsbad	22.347
Farmington	22.450
Clovis	24.132
Alamogordo	24.857
Hobbs	25.534
Roswell	26.260
Las Cruces	28.803
Rio Rancho	35.341
Albuquerque	41.203

Since home values are not uniform across cities, it is not possible to make any conclusions about average property tax burdens from the data in Table 2. Median home values for each city, along with property tax rates, are needed to compare average property tax burdens between cities.

However, the methodology for calculating the property tax burden of a home is uniform across the state. A home's taxable value is equal to 1/3 of its appraised value. Net taxable value is determined by subtracting a head of household exemption of $2,000—and, if applicable, a veteran's exemption of $4,000—from the taxable value.[8] The net taxable value is then multiplied by the millage rate to get residential property tax burden. Table 3 shows a sample calculation for an Albuquerque home worth $120,000 using the 2012 local millage rate.

[6] Within each respective jurisdiction, state debt obligation may not exceed 1% of net taxable value, county and municipal debt obligation may not exceed 4% of net taxable value, and school district debt obligation may not exceed 6% of net taxable value.

[7] US Census Bureau, "State and Local Government Finances Summary: 2009," Issued October 2011, http://www2.census.gov/govs/estimate/09_summary_report.pdf

[8] Beginning in 2006, the Veteran exemption is $4,000. See Article VII, Section 5 of the Constitution of New Mexico.

Table 3. Calculation of Residential Property Tax Burden

Assessed Market Value	$120,000.00
Taxable Value (*1/3 of assessed value*)	$40,000.00
Less Exemptions:	
Head of Household	*-$2,000.00*
Veteran (Normally $4,000)	*-$0.00*
Net Taxable Value	$38,000.00
Multiply NTV by Millage Rate (41.203)	x 0.041203
Property Tax Burden	**$1,565.71**

In 2000, legislation was passed by the state to protect homeowners from large spikes in home value. Beginning in tax year 2001—aside from a few special cases—a home's assessed value can only rise by 3% each year, regardless of the home's actual market value.[9] If the property changes ownership due to a sale in the subsequent tax year, the assessed market value is set to the sale price. This situation is often referred to as "tax lightning", and it can cause new homeowners to pay substantially higher property taxes than their neighbors do.

While this study calculates property tax burdens by assuming houses are assessed at market value, the assessed value may be lower in reality because of the 3% cap. Thus, actual property tax liability for homeowners will tend to be less than the property tax liability calculated in this study. However, the report will generally reflect the property tax liability for individuals moving into a newly built home or one in which they'll be subject to the "tax lightning". This is relevant to this study's objective in how tax burden will affect a person's decision on where they choose to live.

It was mentioned in the previous version of this study that in August 2009, Second Judicial District Judge Theresa Baca ruled that the inequality caused by "tax lightning" violates New Mexico's Constitution.[10] Just recently however, in March of 2012, the New Mexico Court of Appeals held, in Zhao v. Montoya, that the often-dramatic increases in tax bills caused by ownership changes did not violate the state Constitution.[11] The battle over "tax lightning" is likely to continue during the 2013 legislative session as efforts are undertaken to resolve the situation.

Complete data for 2012 median home value for all of New Mexico's ten largest cities was not available at the time of publishing. To estimate 2012 median home value, 2009 median values were adjusted according to the Federal Housing Finance Agency's Metropolitan Statistical Area (MSA) House Price Index (HPI). FHFA's State Nonmetropolitan Area Index for New Mexico was used for those cities not contained within an MSA.[12]

[9] The 3% cap does not apply to new improvements made to the property.
[10] "Judge Zaps Tax Lightning". *Albuquerque Journal*. August 14, 2009.
[11] "Appeals Court Oks Tax Lightning Law". *Albuquerque Journal*. March 30, 2012.
[12] 2009 median home value estimates were provided by Onboard Informatics at http://www.city-data.com. FHFA HPI data for both MSA and non-MSA are available at http://www.fhfa.gov/Default.aspx?Page=87

Table 4 shows the results of using estimated 2012 median home sales price data to calculate the median residential property tax burden.

Table 4. Estimated 2012 Tax Burden of Median Residential Property by City

City	Median Home Value	Millage Rate	Median Property Tax Burden
Carlsbad	$85,203	22.347	$590
Roswell	$80,740	26.260	$654
Clovis	$91,187	24.132	$685
Hobbs	$88,246	25.534	$700
Alamogordo	$95,853	24.857	$744
Farmington	$164,095	22.450	$1,183
Las Cruces	$135,705	28.803	$1,245
Santa Fe	$264,614	20.091	$1,732
Rio Rancho	$164,085	35.341	$1,862
Albuquerque	$169,814	41.203	$2,250

Gross Receipts Tax

New Mexico's gross receipts tax is a tax on businesses for sales and the performance of services. For consumers, gross receipts tax functions much like a sales tax, as businesses can often pass the whole tax onto consumers.[13] This study assumes that businesses in New Mexico pass the whole gross receipts tax onto consumer expenditures.

Gross receipts tax is comprised of three rates—state, county, and municipal—and thus varies from city to city. The state charges a rate of 5.125%, and county and municipal rates are determined by county commissions and municipal councils, respectively.[14] While local governments collect less revenue from gross receipts tax than from property tax, they still rely on them to generate roughly 16% of annual taxation revenue.[15]

[13] Gross receipts tax does not function like a sales tax for all businesses. For discussion on this, see Rio Grande Foundation study "New Mexico's Gross Receipts Tax: A Warning to Other States" by Paul Gessing and Harry Messenheimer, Ph.D. http://www.riograndefoundation.org/downloads/combined_grt.pdf

[14] County rates are capped at 4.3125%, and municipal rates are capped at 4.0625%.

[15] US Census Bureau, "State and Local Government Finances Summary: 2009," Issued October 2011, http://www2.census.gov/govs/estimate/09_summary_report.pdf

Table 5. Calculation of Average GRT Burden, Albuquerque

2010 Per Capita Personal Income	$ 34,482
2010-2011 New Mexico PCPI Change	**x** 1.037
2011 Estimated Per Capita Personal Income	$ 35,758
Proportion of GRT Taxable Expenditures *($30,000-$39,999 income range)*	**x** 0.6013
Annual GRT Taxable Expenditures	$ 21501
Isolate GRT *(7%)*	**x** $\frac{.07}{1+.07}$
2012 Estimated Average GRT Burden	**$ 1,407**

Table 5 illustrates the methodology used to calculate the average gross receipts tax burden of a consumer in each city. 2011 per capita personal income was estimated by adjusting the most recent 2010 data for the city's Metropolitan Statistical Area (MSA) or Micropolitan Statistical Area with the 2010-2011 PCPI percent change obtained from the state's personal income reports from the Bureau of Economic Analysis (BEA).[16]

Consumer expenditure data from the Bureau of Labor Statistics (BLS) was used to determine the proportion of expenditures consumers spend on gross receipts taxable goods.[17] Food, shelter, and gasoline expenditures, which are non-taxable under New Mexico's gross receipts tax system, were omitted in consumption calculations.

The proportion found was used to prorate the amount that an average person spends annually on gross receipts taxable goods based on the local per capita personal income. The expenditure data from the BLS study includes sales and excise tax which means the calculated data include gross receipts tax payments. The gross receipts tax is then isolated using the city's rate.

[16] 2010 BEA per capita personal income data is taken from Table CA1-3 via the Interactive Data tab at http://www.bea.gov. 2011 state personal income data is taken from Table SA1-3, which is available from the same location. 2011-2012 PCPI percent change was not available at time of publishing.

[17] Consumption behavior, which changes with income level, was accounted for. See Table 2 of the BLS report "Consumer Expenditures in 2010: Lingering Effects of the Great Recession." http://www.bls.gov/cex/csxann10.pdf

Table 6. 2012 Average Estimated GRT Burden by City

City	GRT Rate[18]	Per Capita (PCPI) Personal Income	Estimated GRT Burden
Roswell	7.1250%	$30,439	$1,217
Farmington	7.1250%	$30,526	$1,221
Alamogordo	7.6250%	$29,780	$1,269
Las Cruces	7.5625%	$29,694	$1,255
Hobbs	6.8125%	$35,613	$1,366
Albuquerque	7.0000%	$35,758	$1,407
Rio Rancho	7.4375%	$35,758	$1,488
Clovis	7.8125%	$38,297	$1,669
Carlsbad	7.4375%	$42,256	$1,759
Santa Fe	8.1875%	$44,994	$2,047

Local Tax Burden Comparison

Combined, property and gross receipts tax burdens give the best estimate of the tax climate of New Mexico's cities. While there are many more taxes levied—income, cigarette, and fuel tax, for example—property and gross receipts tax make up a majority of the average citizen's location-dependent tax burden. Table 7 shows the tax burden calculated by adding the two taxes.

Table 7. 2012 Estimated Overall Property and Gross Receipts Tax Burden by City

City	Median Property Tax Burden	+	Average GRT Burden	=	Total Tax Burden
Roswell	$654		$1,217		$1,871
Alamogordo	$744		$1,269		$2,013
Hobbs	$700		$1,366		$2,066
Carlsbad	$590		$1,759		$2,349
Clovis	$685		$1,669		$2,354
Farmington	$1,183		$1,221		$2,404
Las Cruces	$1,245		$1,255		$2,500
Rio Rancho	$1,862		$1,488		$3,350
Albuquerque	$2,250		$1,407		$3,657
Santa Fe	$1,732		$2,047		$3,779

Though these calculations give a general idea of how much the average person pays in taxes, they need to be put in perspective. What ultimately impacts taxpayers is how much tax they pay in relation to their income. Tax burden as a percent of income, as shown in Table 8, is what determines tax-friendliness.

[18] GRT rates for each city was derived from NM Taxation and Revenue Department: http://www.tax.newmexico.gov/Forms-and-Publications/Forms/Gross-Receipts/Pages/Home.aspx#Rates.aspx

Table 8. 2012 Tax-Friendliness by City

City	Total Tax Burden	Per Capita (PCPI) Personal Income	Tax Burden as a Percent of Income
Carlsbad	$2,349	$42,256	5.56%
Hobbs	$2,066	$35,613	5.80%
Clovis	$2,354	$38,297	6.15%
Roswell	$1,871	$30,439	6.15%
Alamogordo	$2,013	$29,780	6.76%
Farmington	$2,404	$30,526	7.88%
Santa Fe	$3,779	$44,994	8.40%
Las Cruces	$2,500	$29,694	8.42%
Rio Rancho	$3,350	$35,758	9.37%
Albuquerque	$3,657	$35,758	10.23%

Carlsbad and Hobbs have continued to perform well since the 2009 tax study, having the lowest tax burden as a percent of income and among the lowest in absolute tax burden. Roswell had the greatest change in tax friendliness since the last study with a decrease in the city's property tax rates by 3.22 mills (a decrease of nearly 11%). The city went from a total tax burden of $2,277 to $1,871 and a tax burden as a percent of income of 7.71% to 6.15%.

Others performed consistently as well, but as a tax unfriendly city. Albuquerque continues to tax almost twice as much as Hobbs as a percentage of income even though the Per Capita Personal Income of the two cities are about the same. Rio Rancho's property tax rate is at 35.341 mills compared to their 2008 rate of 29.896, an increase of over 18%.

Compared to the 2009 Rio Grande Foundation Tax Friendliness study, half of the cities increased their Gross Receipts Tax while there was no change in the other half (other than the statewide GRT increase). When it came to Property Tax, only 40% of the cities increased their property tax rates while 60% decreased their property tax rates.

Conclusion

While dozens of factors ultimately determine where people choose to settle, more information allows better decisions to be made. New Mexico's cities are in constant competition both with each other and with cities in other states for employers, citizens, and economic growth. Lower taxes and less regulation are two factors that can make cities more attractive than others to both employers and citizens.

The Rio Grande Foundation hopes that the information presented in this study will encourage city leaders to evaluate their tax policies to remain competitive. Tax policy is not solely in the hands of city councils, county commissions, or state government—citizens have a say, with both their vote and their feet. The old saying that taxes redistribute people, not wealth, has truth to it. In order to attract people and promote economic growth, New Mexico's cities should seek lower taxes.