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

**ORIGINAL DATE** 02/01/13
**SPONSOR** O'Neill/Maestas **LAST UPDATED** **HB**

**SHORT TITLE** Upper Tax Bracket For Certain Liabilities **SB** 126

**ANALYST** Walker-Moran

## REVENUE (dollars in thousands)

| Estimated Revenue | | | | | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|---|---|---|
| **FY13** | **FY14** | **FY15** | **FY16** | **FY17** | | |
| $0.0 | $42,300.0 | $86,800.0 | $91,100.0 | $95,500.0 | Recurring | General Fund |

(Parenthesis ( ) Indicate Revenue Decreases)

**SOURCES OF INFORMATION**
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

**SUMMARY**

Synopsis of Bill

Senate Bill 126 amends section 7-2-7 NMSA 1978 to include an 8.2 percent personal income tax bracket in addition to the existing top taxable income bracket is 4.9 percent. For married individuals filing separate returns, This bill amends the statute to read that taxable income over $187,500 pays a tax of $8,983.50 plus 8.2 percent of excess over $187,500. For heads of household, surviving spouses and married individuals filing joint returns, this bill amends the statute to read that taxable income over $375,000 pays a tax of $17,967 plus 8.2 percent of excess over $375,000. For single individuals and for estates and trusts, this bill amends the statute to read that taxable income over $250,000 pays a tax of $11,970.5 plus 8.2 percent of excess over $250,000.

The applicability date of this provision applies to taxable years beginning on or after January 1, 2014. The effective date of this bill is January 1, 2014.

**FISCAL IMPLICATIONS**

TRD used a simulation model to estimate each calendar year’s tax liability at 2010 income levels (the most recent year for which complete tax return data is available). Personal income growth as estimated by the consensus revenue estimating group was used to forecast the income tax base. Calendar year liabilities were converted to fiscal years by applying historical payment patterns.

## SIGNIFICANT ISSUES

This bill may violate the tax policy principle of equity. The proposal would impose a greater personal income tax burden on taxpayers with higher income, which is sometimes advocated on the grounds that these individuals have a greater ability to pay and the tax should be used to re-distribute income. The counter-argument to this is that states should not attempt to re-distribute income because of the potential for negative impacts on their economic development i.e., raising income tax rates would reduce the after-tax return on labor and capital invested in the New Mexico economy, thus reducing the competitiveness of New Mexico's economy by discouraging business location and investment as well as employment and work effort. This proposal may also mean higher taxes for many New Mexico businesses that are taxed at the individual level.

## POSSIBLE QUESTIONS

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

EWM/bm