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

		ORIGINAL DATE	09/30/16		
SPONSOR	Smith	**LAST UPDATED**	10/01/16	**HB**	
SHORT TITLE	Delay Tax Changes			**SB**	5
				ANALYST	Clark/Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY17	**FY18**	**FY19**	**FY20**	**FY21**		
$13,800	$23,400	$24,900	$15,900	0	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

System changes should be able to be implemented within the regular maintenance cycle, with the exception of the modification for estimated payments

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Finance and Administration (Fiscal Spreadsheet)

SUMMARY

Synopsis of Senate Certificate

The Senate Certificate removes the emergency clause from the bill. There is no effective date, so the bill is assumed to be effective 90 days after the session ends.

Synopsis of Original Bill

The corporate income tax (CIT) rate reduction delay portion of the bill delays the five-year phased reduction of corporate income tax enacted in 2013 by two tax years. The scheduled reduction to 6.6 percent for taxable income in excess of $1 million, which was to have been effective for TY 2016 will be held at 6.9 percent for TY15, TY16, and TY17.

The subsequent reductions to 6.6 percent, 6.2 percent (on taxable income over $500 thousand), and 5.9 percent would be delayed by two tax years, with a final level of 4.8% for all taxpayers with net income under $500 thousand and 5.9 percent for all taxpayers with net income over $500 thousand effective for TY20.

The phased-in sales-only provision for manufacturers (also referred to a single sales factor or single sales apportionment) would also be delayed by two years as follows:

Tax Year	Current Law Factors	Proposed Factors
TY 2014	(S*2+Pr+P)/4	(S*2+Pr+P)/4
TY 2015	(S*3+Pr+P)/5	(S*3+Pr+P)/5
TY 2016	(S*7+1.5*Pr+1.5*P)/10	(S*3+Pr+P)/5
TY 2017	(S*8+Pr+P)/10	(S*3+Pr+P)/5
TY 2018	(S)/1	(S*7+1.5*Pr+1.5*P)/10
TY 2019	(S)/1	(S*8+Pr+P)/10
TY 2020	(S)/1	(S)/1
TY 2021	(S)/1	

This bill contains an emergency clause and would become effective immediately upon signature by the governor. However, because the bill alters the rates and apportionment factors for the FY 2016 tax year, the bill contains a penalty and interest hold harmless provision for estimated tax payments for the 2016 tax year.

FISCAL IMPLICATIONS

The impact of this bill has been estimated by LFC using data reported during the consensus revenue estimating process, new supplemental data from the Department of Finance and Administration, and historical estimates provided by TRD. This bill delays the implementation of the TY 2016 reduction from 6.9 percent to 6.6 percent for two years. The bill provides relief from penalty and interest on estimated payments, but the taxpayers must pay the full TY16 taxes due in the final settlements. Thus, there would not be any additional revenue in penalties and interest, but FY17 will receive a full year's fiscal impact. The estimating spreadsheet follows:

	FY14 Act	FY15 Act	FY16 Est	FY17	FY18	FY19	FY20	FY21
Gross CIT	246.8	341.4	202.7	197.0	194.9	207.3	226.6	226.6
Y/Y Growth		38%	-41%	-3%	-1%	6%	9%	0%
Leg Changes		-13.0%	-19.0%	-19.0%	-19.0%	-26.0%	-31.0%	-38.0%
Subtotal		297.0	164.2	159.6	157.9	153.4	156.4	140.5
Adjustments*		-42.5	-44.2	-45.8	-46.5	-46.5	-46.5	-46.5
Net CIT	**196.8**	**254.5**	**120.0**	**113.8**	**111.4**	**106.9**	**109.9**	**94.0**
Difference				**13.8**	**23.4**	**24.9**	**15.9**	**0.0**

* Adjustments include -$50 million annually for the film production tax credit and other small adjustments.

SIGNIFICANT ISSUES

There is no particular tax policy implicated here. Testimony in 2013 indicated that new companies were not expanding in New Mexico because the top marginal income tax rate was an outlier among competitive states. It may be too early to arrive at a definitive conclusion, but since the 2013 tax package, the state's economy continues to struggle at growth rates well below national and regional averages, and New Mexico has shed manufacturing jobs in nearly every month over the last few years.

JC/jle/al