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## FISCAL IMPACT REPORT

SPONSOR: Maes DATE TYPED: 01/31/01 HB \_\_\_\_\_  
 SHORT TITLE: Phase In Net Capital Gain Tax Deduction SB 108  
 ANALYST: Williams

### REVENUE

| Estimated Revenue |               | Subsequent<br>Years Impact    | Recurring<br>or Non-Rec | Fund<br>Affected |
|-------------------|---------------|-------------------------------|-------------------------|------------------|
| FY01              | FY02          |                               |                         |                  |
|                   | \$ (37,400.0) | Grows exponentially over time | Recurring               | General Fund     |

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files  
 Taxation and Revenue Department

### SUMMARY

#### Synopsis of Bill

The bill authorizes a personal income tax deduction for capital gains income. The deduction is phased in 33.3% per year beginning in tax year 2001, so that all net capital gain income is deductible in tax year 2003.

#### Significant Issues

Unexpectedly strong capital gain has contributed to personal income tax receipts above projections in recent years for both the federal government and many states, including New Mexico. The attached table reflects the relative importance of capital gains to the New Mexico personal income tax structure based on a recent report.

### FISCAL IMPLICATIONS

The Taxation and Revenue Department indicates their fiscal analysis table incorrectly identifies an impact on local governments and other state funds. Because this is a personal income tax bill, the proposed phased deduction for net capital gains would only impact the state general fund.

The net general fund revenue loss is estimated at \$37,400.0 in FY02, then grows exponentially to \$88,800.0 in FY03 and \$146,600.0 in FY04.

**OTHER SUBSTANTIVE ISSUES**

The attached TRD analysis reflects their position on the proposal's effectiveness as well as presents a distribution of the fiscal impacts by income category.

**POSSIBLE QUESTIONS**

1. Does the sponsor concur with the effectiveness issues raised by the TRD analysis?

AW/ar