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

SPONSOR Lujan **DATE TYPED** 10/12/05 **HB** 10/aSFC/aCC

SHORT TITLE 2005 Tax Rebates and Rate Cut **SB**

(REVISED) **ANALYST** Francis

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
	$500			Non-recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SB17,HB19,HB10

REVENUE

Estimated Revenue			Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06	FY07			
	($107,700)			Non-Recurring	General Fund
	($74,600)	($34,200)		Rec/Non-Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files
Taxation and Revenue Department (TRD)
Legislative Council Service (LCS)

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Conference Report

The conference committee on House Bill 10 revised the Senate Finance Committee amendments to HB10.

- The first revision was to increase the amount of the rebate to $106.2 million, remove the cap and set the income thresholds to adjusted gross income rather than taxable income.
- The final revision was to remove the gross receipts tax holiday.

SUMMARY OF BILLS

FY06 Impacts	**House Bill 10**	**SFC Amendments**	**Conference**
Rebate	$ 75.5	$ 57.2	$ 106.2
Rebate Exemption		0.3	1.5
2005 Rate Cut		40.2	40.4
2006 Rate Cut		34.2	34.2
GRT Holiday		5.9	
Taxation and Revenue Departmen	0.5	0.5	0.5
Total	**$76.00**	**$138.25**	**$182.80**

Synopsis of SFC Amendments

1. Rebate check for taxpayers. This amendment provides a rebate check for all taxpayers who have a taxable income less than the top personal income tax bracket that ensures that low income tax filers receive relief for the high cost of gas and heating. This is different from the rebate in the original bill by making the basis for the rebate **taxable income** rather than **adjusted gross income (AGI)**. The schedule of rebates has changed as well (see table below). The cut-off for the rebate is $24,000 in taxable income for married individuals filing jointly and heads of household, $12,000 for married individuals filing separately, and $16,000 for single individuals.

Taxable income is the AGI less deductions and exemptions. The standard deduction in tax year 2004 was $4,850 for singles, $9,700 for married filing jointly and $7,150 for heads of household and the personal exemption was $3,100 per exemption. Hence, a married couple with two kids would have deductions and exemptions of at least $22,100 in deductions and exemptions. If that same couple earned $45,000 in wages and salaries and had no other income or adjustments to income, their taxable income would be $22,900 and fall below the cut-off of $24,000.

2a. Reduce the top personal income tax rate to 5.7% in tax year 2005. The current rate for tax year 2005 is 6.0% and this amendment would lower that to 5.7% for the entire year. Since taxpayers have been withholding and/or estimating taxes based on the 6.0% rate, they will receive a refund when they file their 2005 tax returns in 2006. Only those subject to the top income tax rate will see the refund. The top income tax bracket is $24,000 in taxable income for married individuals filing jointly and heads of household, $12,000 for married individuals filing separately, and $16,000 for single individuals.

2b. Reduce the top personal income tax rate to 5.3% in tax year 2006. Current law sets the top personal income tax rate at 5.8% for tax year 2006. This amendment will reduce that to 5.3%, in effect accelerate the phase-in schedule of the 2003 personal income tax rate cuts. Since it is effective January 1, 2006, taxpayers subject to the top rate will see an immediate decline in their withholding amounts.

3. Three-day gross receipts tax holiday for retail purchases of less than $500 per unit. This amendment allows for a gross receipts tax holiday for retail purchases on the first weekend in December (December 2-4, 2005). It would be similar to the August back-to-school tax holiday but allows more items to be purchased tax-free.

4. Make the tax rebate exempt from state personal income taxes. This amendment exempts the rebate received from state personal income taxes. It will still be subject to federal personal income taxes.

Synopsis of Original Bill

House Bill 10 sets up a rebate on the personal income tax to be mailed out immediately to all taxpayers by the secretary of the Taxation and Revenue Department (TRD). The intent of the rebate is to mitigate the recent high costs of gasoline and the expected increases in the cost of heating this winter. The rebate decreases as income rises and increases as family size increases.

The rebate is paid to any resident who files an individual NM income tax return and is not a dependent of another individual, who was not an inmate of a public institution for more than six months during tax year 2004 and was a resident on the last day of 2004. Additionally, residents who do not receive rebates can claim it on their 2005 tax return provided they were not an inmate of a public institution for more than six months in 2005 and were residents as of the last day of tax year 2005.

FISCAL IMPLICATIONS

REVENUE IMPACT

	FY06 ($M)	FY07 ($M)
Rebate	$ 106.2	
Rebate Exemption	1.5	
2005 Rate Cut	40.4	
2006 Rate Cut	34.2	34.2
Total	**$ 182.3**	**$ 34.2**

APPROPRIATIONS IMPACT

	FY06 ($M)	FY07 ($M)
Taxation and Revenue Department	$ 0.5	
Total	**$ 0.5**	**$ -**

Rebate to all tax filers. The bill establishes a $106.2 million rebate that increases with family size and decreases with income. The minimum amount of rebate is $64 for a single filer with over $60,000 in adjusted gross income; the maximum amount of rebate is $289 for a family of six earning less than $10,000 in adjusted gross income. The average rebate is $125 per return.

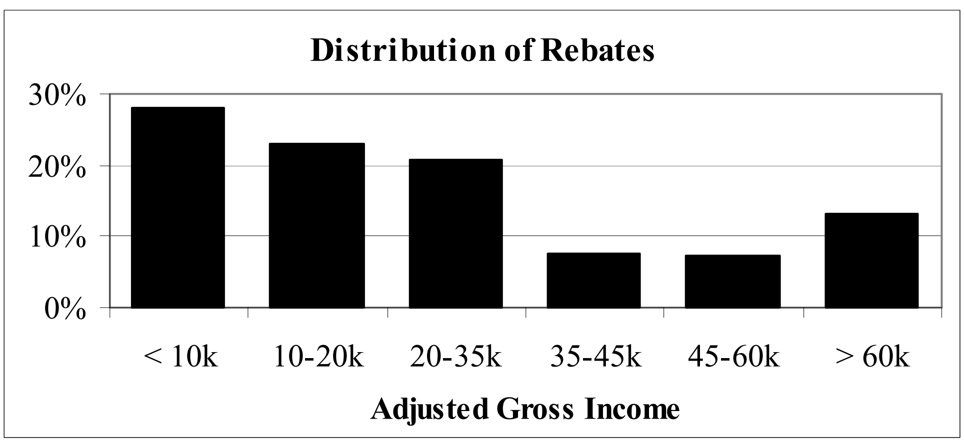
Adjusted Gross Income:	But not over:	Number of exemptions: 1	2	3	4	5	6
$0	$10,000	$139	$179	$214	$244	$269	$289
$10,001	$20,000	$124	$164	$189	$214	$234	$249
$20,001	$35,000	$109	$139	$164	$184	$199	$209
$35,001	$45,000	$94	$119	$139	$154	$164	$169
$45,001	$60,000	$79	$104	$124	$139	$149	$154
$60,001	No Limit	$64	$84	$99	$109	$114	$119

Using TRD estimates, the cost of the rebates is $106.2 million in direct payments administered by the secretary of the Taxation and Revenue Department and $500 thousand in appropriation for the administration of the payments. Though the bill does not state it explicitly the assumption is that the appropriation for the rebate is out of the general fund.

The rebate is designed to provide all taxpayers with some relief. It is weighted towards larger, low income families. The minimum rebate is $64 while the maximum is $289. The rebate is based on adjusted gross income and exemptions declared on the 2004 returns.

Changes from the original HB10: the rebate has increased from $75.5 million to $106.2 million and the average rebate went up to $125. In the original HB10, 60% of the rebates went to those under $35,000 and in the conference report version 72% goes to those under 35,000 or the same amount that went to these tax filers under House Bill 19.

Using TRD estimates, two-thirds of the rebates will go to taxpayers who have less than $35,000 in adjusted gross income (see chart).



Fiscal impacts were estimated using information from personal income tax returns. The following adjustments were made to reflect various provisions of the proposal:
• Non-resident taxpayers were excluded;
• Inmates of public institutions were excluded; and
• An estimate of the number of new taxpayers moving into the state during 2005 was added to the population of resident taxpayers from the previous year.

Fiscal Impact of Exempting Rebates
The estimate in making the rebates exempt from state taxation is $1.4 million. This ensures that

the rebates are not subject to state personal income taxes though they will still be subject to federal income taxes.

Fiscal Impact of Rate Reductions

Top Tax Rate	CY05	CY06
Current Law	6.0%	5.8%
HB 10 Conference	5.7%	5.3%

1. Reduce top rate to 5.7% in tax year 2005. Reducing the top rate is estimated to reduce PIT collections by $40.2 million in FY06. Since this is a retroactive rate reduction, the entire impact is in FY06. It is unclear whether the reduction in the top rates should be considered recurring or non-recurring since there was already a phase-in schedule in place. TRD has assumed these to be recurring.

All of the benefits of the reduction go to those taxpayers in the top taxable income bracket as identified in the tables above. It should be noted that these tax rate reductions were already being phased-in and assumed in revenue projections.

2. Reduce top rate to 5.3% in tax year 2006. Reducing the top rate is estimated to reduce PIT collections by $68.4 million, $34.2 million in FY06 and $34.2 million in FY07. The tax year follows the calendar year and so any impacts are spread over two fiscal years. It is assumed that the impacts are spread evenly.

It is unclear whether the reduction in the top rates should be considered recurring or non-recurring since there was already a phase-in schedule in place. TRD has assumed these to be recurring.

All of the benefits of the reduction go to those taxpayers in the top taxable income bracket as identified in the tables above. It should be noted that these tax rate reductions were already being phased-in and assumed in revenue projections.

ADMINISTRATIVE IMPLICATIONS

To process the rebates, TRD has estimated that this will cost $500 thousand to process and distribute the rebates to taxpayers. TRD expects they can complete the job and have all of the rebates mailed out by December 15th, 2005.

The advanced payment provisions of the proposal will require the Taxation and Revenue Department to incur expenses associated with identifying eligible taxpayers and their appropriate advanced payment amount, and also with mailing the advanced payments. The proposed appropriation should be sufficient to accommodate the impacts of the requirements on the Department's budget.

NF/yr