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## FISCAL IMPACT REPORT

SPONSOR Arnold-Jones DATE TYPED 10/9/2005 HB 13

SHORT TITLE 2005 Tax Rebates SB \_\_\_\_\_

ANALYST Francis

### APPROPRIATIONS

Estimated Appropriations		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	(\$260,559)		Non-Recurring	General Fund
	(\$500)		Non-Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to HB10, SB1, SB6

#### SOURCES OF INFORMATION

LFC Files  
Taxation and Revenue Department (TRD)

Responses Received From  
Taxation and Revenue Department (TRD)

#### SUMMARY

##### Synopsis of Bill

House Bill 13 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.

House Bill 13 is identical to the original House Bill 10 except that the amounts rebated are higher. It is important to note that HB10 as amended by the Senate uses a similar table but uses TAXABLE income rather than ADJUSTED GROSS INCOME as is shown here and has different schedules for each filing status.

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**

The cost of the rebates is estimated to be \$260.6 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.

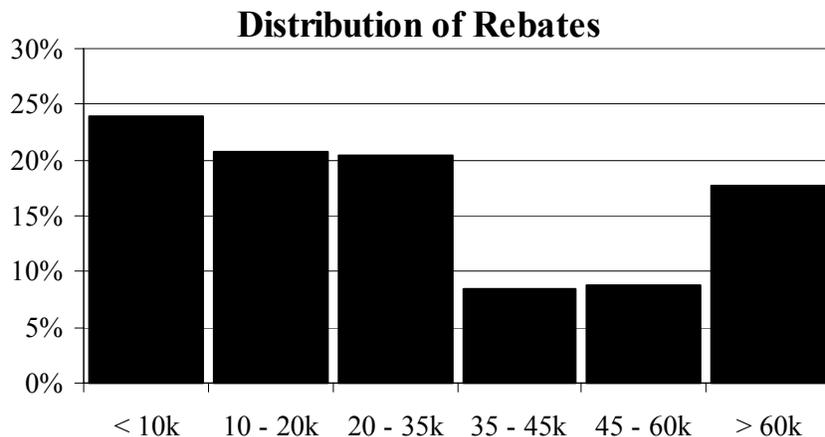
The rebate is designed to provide all taxpayers with some relief. It is weighted towards larger, low income families. The minimum rebate is \$290 while the maximum is \$440 and the average is \$306. The rebate is based on adjusted gross income and exemptions declared on the 2004 returns.

The rebate decreases as income goes up and increases as exemptions go up. For one exemption, like a single tax filer, the maximum is \$320 while the minimum is \$290 (see table).

**Proposed Rebate Schedule**

Adjusted Gross Income:		Number of exemptions:					
Over:	But not over:	1	2	3	4	5	6
\$0	\$10,000	\$320	\$365	\$395	\$415	\$430	\$440
\$10,001	\$20,000	\$315	\$355	\$385	\$400	\$410	\$415
\$20,001	\$35,000	\$310	\$345	\$370	\$380	\$385	\$390
\$35,001	\$45,000	\$305	\$335	\$355	\$365	\$370	\$375
\$45,001	\$60,000	\$300	\$325	\$340	\$345	\$350	\$355
\$60,001	No Limit	\$290	\$310	\$320	\$325	\$330	\$335

TRD estimates that the bulk of the rebates, over 60%, 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 follow-

ing 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 were added to the population of resident taxpayers from the previous year.

### **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 15<sup>th</sup>, 2005. This estimate was provided for HB10 which has lower rebate amounts but the processing should not be affected by the amount of the rebate.

### **TECHNICAL ISSUES**

There is a provision in the bill that reduces the exemptions by one for husband and wife who have filed a joint return where only one individual is a NM resident. It is unclear how they claim the rebate if the non-resident becomes a resident in the 2005 tax year.

A similar issue arises for taxpayers who increase their exemptions (i.e. have or adopt a child) in 2005 and are theoretically entitled to an additional rebate amount.

Bill refers to “husband and wife who have filed a joint return” rather than “married individuals filing jointly” as is the convention in the Income Tax Act.

**NF/yr:lg**