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## FISCAL IMPACT REPORT

SPONSOR Smith DATE TYPED 10/7/05 HB \_\_\_\_\_

SHORT TITLE Tax Rebates for Natural Disaster Victim Aid SB 6

ANALYST Francis

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
	(\$75,500)			Non-Recurring	General Fund
	(\$400)		(\$100)	Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB10, SB1

### SOURCES OF INFORMATION

LFC Files  
 Taxation and Revenue Department (TRD)  
 Department of Public Safety (DPS)

Responses Received From  
 Taxation and Revenue Department (TRD)  
 Department of Public Safety (DPS)

### SUMMARY

#### Synopsis of Bill

Senate Bill 6 partially duplicates House Bill 10 and Senate Bill 1 and adds the option of having the Tax and Revenue Department (TRD) divert a portion of any personal income tax refund to the Department of Public Safety (DPS) for distribution to nonprofit organizations that provide assistance to victims of natural disasters in the United States.

The bill directs TRD to add a designation on the state income tax form for such contributions.

The bill, like HB10, also 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 in-

tent 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.

The only divergence from the taxpayer rebate section in this bill as compared to the similar HB10 is that the latter appropriated \$500,000 for administration. This is noted in the “Additional Impact” cell in the table above.

**FISCAL IMPLICATIONS**

The cost of the rebates is \$75.5 million in direct payments administered by the secretary of the Taxation and Revenue Department. Though the bill does not state it explicitly the assumption is that the appropriation for the rebate is out of the general fund. \$400 thousand is appropriated for the administration of the payments to TRD. This is in conflict with HB10 which appropriates \$500 thousand to TRD for the processing of the rebates.

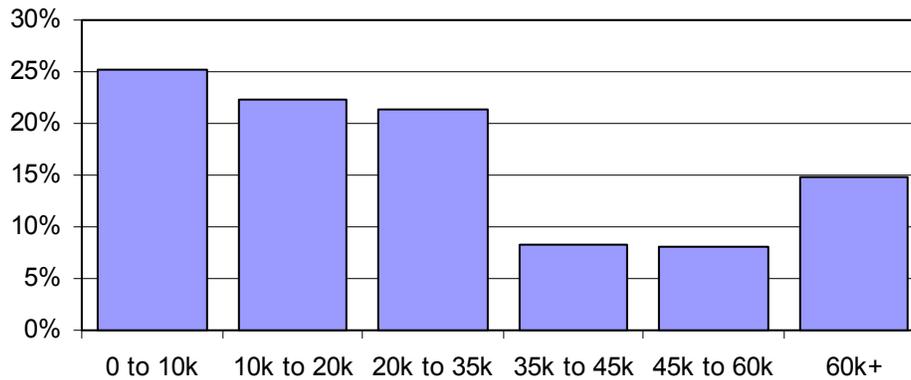
The rebate is designed to provide all taxpayers with some relief. It is weighted towards larger, low income families. The minimum rebate is \$50 while the maximum is \$200 and the average is \$89 per return. The rebate is based on adjusted gross income and exemptions declared on the 2004 returns.

The rebate decreases as income goes up and increases as exemptions go up. For one exemption, like a single tax filer, the maximum is \$80 while the minimum is \$50 (see table).

Proposed Rebate Schedule							
Adjusted Gross Income:		Number of exemptions:					
Over:	But not over:	1	2	3	4	5	6
\$0	\$10,000	\$80	\$125	\$155	\$175	\$190	\$200
\$10,001	\$20,000	\$75	\$115	\$145	\$160	\$170	\$175
\$20,001	\$35,000	\$70	\$105	\$130	\$140	\$145	\$150
\$35,001	\$45,000	\$65	\$95	\$115	\$125	\$130	\$135
\$45,001	\$60,000	\$60	\$85	\$100	\$105	\$110	\$115
\$60,001	No Limit	\$50	\$70	\$80	\$85	\$90	\$95

TRD estimates that the bulk of the rebates, almost 50%, will go to taxpayers who have less than \$20,000 in adjusted gross income (see chart).

### Percentage of Total Rebate Benefits



Assuming 5% of tax payers are able to divert 100% of the amount of the rebate to victims assistance, DPS would have approximately \$3.8 million to distribute to nonprofits. In taxable year 2003, the taxpayer "checkoff" for "Share with Wildlife," a similar concept and the checkoff with the highest participation, only had 38,964 participants or 4.5% of all tax returns.

### ADMINISTRATIVE IMPLICATIONS

The advanced payment provisions of the proposal will require TRD to incur expenses associated with identifying eligible taxpayers and their appropriate advanced payment amount, and also with mailing the advanced payments. 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.

### 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.

### QUESTIONS

Will providing a tax check-off discourage or encourage other charity?

What has been the experience with other tax check-offs?

Have the administrative costs balanced the benefits of other tax check-offs?

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