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FISCAL IMPACT REPORT

ORIGINAL DATE 1/24/06

SPONSOR Ortiz y Pino LAST UPDATED _____ HB _____

SHORT TITLE Include Certain Amounts as Taxable Income SB 223

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
31,000.0	62,000.0	61,000.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)
 Voices for Children New Mexico (VCNM)

Responses Received From
 Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 223 amends the definition of “net income” in the Income Tax Act to subtract the amount of state and local taxes from the taxpayers itemized deductions. The result is that state and local taxes will be added back into net income for the purposes of determining tax liability.

FISCAL IMPLICATIONS

The fiscal impact was derived by applying the income appropriate effective NM personal income tax (PIT) rate to the number of NM tax filers who included state and local taxes in their itemized deductions. Using IRS data from 2003, it is estimated that there were 202,000 returns that deducted state and local taxes from their income, summing to \$1.2 billion. Under current law, that income is not subject to NM PIT. SB 223 will increase revenue by \$62.0 million per tax year. As Table 1, shows the tax rate for the income is set to the top rate since this would be the rate on any marginal income for these tax filers. The tax filers who had less than \$30,000 in income have a lower marginal rate. FY08 impact is slightly less at \$61.0 million due to lower rates in tax year 2008.

Table 1: Tax Returns with the State and Local Taxes Itemized

	<30k	30-50k	50-75k	75-100k	100-200k	200k+	Total
Returns with Deduction	28,905	44,475	49,295	34,483	36,319	8,562	202,040
Amount of Deduction	42,513	93,542	175,539	191,359	363,350	330,187	1,196,489
NM PIT Effective Rate	2.9%	5.2%	5.2%	5.3%	5.3%	5.3%	5.2%
	1,233	4,864	9,128	10,046	19,258	17,500	62,029

Source: IRS, TRD

SIGNIFICANT ISSUES

New Mexico is one of only six states that do not add back in the state and local deductions into the taxable income.

ADMINISTRATIVE IMPLICATIONS

TRD reports that implementing provisions of the measure would impose moderate administrative impacts on the Department. A new line on would need to be added to the PIT-1 form. Changes to all other forms, which reference the taxable income line and tax lines would need to be made; instruction and publication changes would also be needed. Taxpayer and staff education would be required. Changes would also be needed on the withholding tax tables.

NF/nt