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FISCAL IMPACT REPORT

ORIGINAL DATE 1/27/09
LAST UPDATED 2/22/09 **HB** 64

SPONSOR Garcia, M. P. **SHORT TITLE** Restoring Income Tax Progressivity **SB**

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	\$33,700.0	\$124,900	Recurring	General Fund
* see narrative for out-year impacts				

(Parenthesis () Indicate Revenue Decreases)

Conflicts with HB346

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 64 reverses the 2003 personal income tax (PIT) rate cuts and restores the tax structure to the 2002 law. The changes are phased-in over five years in the same manner the 2003 law was phased in. The table below shows the phase-in.

HB64 Changes to Personal Income Tax Rate Structure

Taxable Income Thresholds by Filing Status									
Married Filing Jointly, Surviving Spouses	Married Filing Separate	Single	Head of Household	2009	2010	2011	2012	2013	2014
<8000	<4000	<5500	<7000	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
8000-16000	4000-8000	5500-11000	7000-14000	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
16000-24000	8000-12000	11000-16000	14000-20000	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
24000-40000	12000-20000	16000-26000	20000-33000	4.9%	5.3%	6.0%	6.0%	6.0%	6.0%
40000-64000	20000-32000	26000-42000	33000-53000				6.8%	7.1%	7.1%
64000-100000	32000-50000	42000-65000	53000-83000					7.7%	7.9%
100000+	50000+	65000+	83000+						8.2%

The changes to the treatment of capital gains that was also part of the 2003 law—Laws 2003, Chapter 2 (HB167)—are not changed.

FISCAL IMPLICATIONS

Using tax information from tax year 2007 and updating using the consensus forecast of personal income, the fiscal impact will reach over \$460 million in FY2014 when the change is fully phased-in.

Estimated Revenue Impact*						R or NR**	Fund(s) Affected
FY2009	FY2010	FY2011	FY2012	FY2013	FY 09-13		
0	33,700	124,900	233,400	330,600	722,600	R	General Fund

* Source: TRD except for FY2014 which LFC extrapolated from TRD information.

SIGNIFICANT ISSUES

The 2003 tax cut significantly altered the tax structure in New Mexico. The reduction made the top rate more competitive with surrounding states but also made the tax much less progressive. The majority of taxpayers, who earn less than approximately \$50,000, were unaffected by the cuts while top earning taxpayers received a significant reduction in income tax. Several measures over the last several years targeted the low and moderate income taxpayers, however, including the working families tax credit, the child care credit, and the low and middle income exemption.

	Top Rate	Top rate at
New Mexico	4.90	24,000
Arizona	4.54	150,000
Colorado	4.63	-
Utah	5.00	-
Oklahoma	5.50	15,000
Texas	No personal income tax	

PERFORMANCE IMPLICATIONS

A progressive income tax structure is more resilient in bad economies and has a positive elasticity to changes in personal income. LFC analysis has shown that the elasticity of PIT tax revenue has declined from above 1 to just below 1 which means a higher personal income growth is required to generate the same tax revenue.

ADMINISTRATIVE IMPLICATIONS

New forms and tax tables would have to be created.

CONFLICT

House bill 346 changes the top personal income tax rate from the current 4.9 percent to 6 percent.

TECHNICAL ISSUES

In the process of restoring the rates to the 2002 level, the change to the head of household filing status is affected. Under current law, heads of household are treated the same as married filers filing jointly. HB 64 would restore the slightly higher tax exposure for heads of household. For example, currently a HOH filer with \$8,000 of taxable income is taxed at 1.7 percent. Under HB 64, \$7,000 would be taxable at 1.7 percent and \$1,000 would be taxed at 3.2 percent.

NF/svb

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc