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FISCAL IMPACT REPORT

ORIGINAL DATE 02/25/09

SPONSOR Lopez LAST UPDATED _____ HB _____

SHORT TITLE Return Income Tax to pre-2004 rates SB 508

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	\$224,460.0	\$459,320.0	Recurring	General Fund
* see narrative for out-year impacts				

(Parenthesis () Indicate Revenue Decreases)

Conflicts with HB346, HB64, HB877

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

Senate Bill 508 reverses the 2003 personal income tax (PIT) rate cuts and restores the tax structure to the rates in effect in 2002. The table below shows the new rates.

Taxable Income Thresholds by Filing Status

Married Filing Jointly, Surviving Spouse	Married Filing Separate	Single	Head of Household	2002	2003	2004	2005	2006	2007	2008	2009	2010
<8000	<4000	<5500	<7000	1.7%	1.7%	1.7%	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%	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%	4.7%	4.7%	4.7%
24000-40000	12000-20000	16000-26000	20000-33000	6.0%	6.0%	6.0%	6.0%	5.3%	5.3%	4.9%	4.9%	6.0%
40000-64000	20000-32000	26000-42000	33000-53000	7.1%	7.1%	6.8%						7.1%
64000-100000	32000-50000	42000-65000	53000-83000	7.9%	7.7%							7.9%
100000+	50000+	65000+	83000+	8.2%								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 be \$459 million in FY2011. FY10 would include a half-year impact.

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	Married filer top rate at
New Mexico	4.90	24,000
New Mexico – SB508	8.20	100,000
Arizona	4.54	150,000
Colorado	4.63	-
Utah	5.00	-
Oklahoma	5.50	15,000
Texas	No personal income tax	

According to EDD, raising income taxes would impede the state’s ability to attract industries to New Mexico, thus curtailing job creation efforts significantly. Retirees may reconsider locating to New Mexico as a result of higher taxes as well.

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. HB64 also restores the 2002 rates but over five years and HB877 changes the rates to the structure that was in place in 2004.

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. SB 508 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 SB 508, \$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