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FISCAL IMPACT REPORT

ORIGINAL DATE 01/31/12
LAST UPDATED _____ **HB** 130

SPONSOR Strickler

SHORT TITLE Reduce Corporate Income Tax Rates **SB** _____

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15		
(\$15,510.0)	(\$56,480.0)	(\$103,000.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

This bill reduces the corporate income tax rates as follows:

For taxable years beginning in calendar 2013 net income:

- below \$500,000 - 4.8% of net income;
- over \$500,000 - \$24,000 plus 6.7% of excess over \$500,000;

For taxable years beginning in calendar 2014 net income:

- below \$500,000 - 4.8% of net income;
- over \$500,000 - \$24,000 plus 5.8% of excess over \$500,000; and

For taxable years beginning on or after January 1, 2015, the tax shall be four and eight-tenths percent of net income.

The corporate income tax rates for taxable years beginning prior to January 1, 2013, remain unchanged at:

- Net income below \$500,000 - 4.8% of net income;
- Net income over \$500,000
- but not over \$1,000,000 - \$24,000 plus 6.4% of the excess over \$500,000;
- Net income over \$1,000,000 - \$56,000 plus 7.6% of excess over \$1,000,000.

Effective Date: Not specified; 90 days following adjournment (May 16, 2012).

FISCAL IMPLICATIONS

2008 New Mexico corporate income tax data was used to estimate corporate income tax revenue based on current and proposed law. January 2012 consensus corporate income tax revenue forecast numbers were used to adjust the current and proposed law revenues for future years. The difference between current and proposed law revenue for each tax year was used to calculate the fiscal impact for each fiscal year.

SIGNIFICANT ISSUES

TRD makes the following arguments:

Reducing corporate income tax rates would make New Mexico more attractive for investment and could thereby attract more businesses (new and existing) to locate in New Mexico.

State corporate income taxes, including New Mexico's, generally conform to the basic design and provisions of the federal corporate income tax. The basic design of the federal corporate income tax is that it operates as a separate tax from the federal individual income tax, meaning that corporate income is taxed first at the corporate level as it is earned, and again at the individual shareholder level when (after-tax) corporate income is distributed to shareholders as dividends or shareholders realize capital gains on the sale of the corporation's stock (the value of which reflects income retained by the corporation). Significant economic distortions arise from this "double tax" design. This bill reduces economic distortions due to the current corporate income tax design by lowering the rates.

Another good tax policy reason for lowering the corporate income tax rate is that the top individual income tax rate is 4.9 percent. Reducing the corporate income tax rate to make it more consistent with the top individual rate would reduce the incentive for companies to organize themselves as limited liability companies, which are not subject to the corporate income tax.

As noted above, these arguments are valid. Unfortunately, this bill has a huge fiscal impact and may very well violate the principle of adequacy (see "OTHER SUBSTANTIVE ISSUES").

OTHER SUBSTANTIVE ISSUES

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy:** Revenue should be adequate to fund needed government services.
2. **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity:** Different taxpayers should be treated fairly.
4. **Simplicity:** Collection should be simple and easily understood.
5. **Accountability:** Preferences should be easy to monitor and evaluate

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