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## FISCAL IMPACT REPORT

**SPONSOR** Vigil **ORIGINAL DATE** 02/09/12  
**LAST UPDATED** \_\_\_\_\_ **HB** 314  
**SHORT TITLE** Social Security Benefits as Tax Income **SB** \_\_\_\_\_  
**ANALYST** Smith

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15		
(\$11,700.0)	(\$12,100.0)	(\$12,450.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

Responses Received From  
Taxation and Revenue (TRD)

### SUMMARY

#### Synopsis of Bill

House Bill 314 amends the definition of “net income” in the Income Tax Act to exclude 50% of the amount of social security benefits included in adjusted gross income.

**Effective Date:** January 1, 2012

### FISCAL IMPLICATIONS

TRD reports that according to 2009 New Mexico Personal Income Tax (PIT) returns, approximately \$858 million was reported in social security benefits. A 2.5% average tax rate was used against 50% of this amount to estimate the fiscal impact. For purposes of this estimate, social security benefits were grown at a 3% rate to calculate future year impacts.

### SIGNIFICANT ISSUES

Elderly and the disabled usually receive social security benefits. However, those populations who rely solely on social security income and are therefore most likely to benefit from this proposal are those whose incomes are sufficiently low to negate income tax liability. This bill would most likely benefit retirees receiving other sources of income such as pensions or annuities.

This proposal would narrow the income tax base. Higher rates would be required on other taxpayers to attain revenues comparable to what could be obtained without this deduction.

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

This bill may be counter to the LFC tax policy principle of adequacy. According to the LFC staff General Fund Recurring Appropriation Outlook for FY14 and FY15, December 2011 forecasted revenues will be insufficient to cover growing recurring appropriations

The sponsor might want to consider a “sunset clause” so that the efficacy of this amendment can be evaluated.

SS/svb