F I S C A L   I M P A C T   R E P O R T

SPONSOR Strickler | **ORIGINAL DATE** 02/08/14 | **LAST UPDATED** | **HB** 210

SHORT TITLE Reduce Corporate Income Tax | **SB**

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	**FY15**	**FY16**	**FY17**	**FY18**		
	($0.0)	($0.0)	($18,000.0)	($33,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

House Bill 210 would reduce the corporate income tax imposed on corporations for taxable years beginning on or after January 1, 2017 and prior to January 1, 2018 if the net income is over $500,000 to five and four-tenths percent (5.4 percent) and four and nine-tenths percent (4.9 percent) for taxable years beginning on or after January 1, 2018, if net income is over $500,000. Pursuant to the provisions of 2013's HB 641, the top marginal corporate income tax rate is scheduled to be reduced to 6.2 percent for TY 2017 and 5.9 percent for TY 2018 and the following years.

EFFECTIVE DATE

The effective date of this bill is January 1, 2015. The provisions of the bill are applicable to taxable years beginning on or after January 1, 2015 (although the first rate reduction pursuant to the provisions of this bill would be for taxable years beginning on or after January 1, 2017. There is no sunset date. LFC recommends adding a sunset date for all tax expenditures. However, a simple change in rates such as is proposed in this bill is not usually considered a tax expenditure.

FISCAL IMPLICATIONS

TRD used 2011 tax year data. The proposed rates and apportionment were applied to calculate the anticipated taxes to establish the impact. Tax years were converted to fiscal years. The percentage change in anticipated taxes between the current law and the proposal was applied against the December 2013 forecast data. The proposed change is estimated to reduce the General Fund by approximately $18 million in FY2017 and $33 million in FY2018 and approximately $33 million plus natural growth for the years beyond FY2018.

This bill may be counter to the LFC tax policy principle of adequacy. However, it does not create a tax expenditure.

SIGNIFICANT ISSUES

EDD notes that the bill will reduce corporate income tax revenues in the short term, but those revenues make up only a small fraction of all state revenues. In the longer term, both income tax and other revenues would increase because New Mexico would become more attractive to corporate income taxpayers. New Mexico's neighboring states have lower corporate income tax rates, and businesses can pay income tax at the lower personal income tax rate simply by organizing as something other than a subchapter-C corporation. Even after phasing in 2013's HB 641, New Mexico will have a higher corporate income tax rate than surrounding states and will struggle to recruit and retain subchapter-C corporations.

PERFORMANCE IMPLICATIONS

EDD reports that a more competitive tax structure would improve EDD's performance in recruiting and retaining businesses.

LFC tax policy of accountability is probably not applicable to this rate reduction proposal. TRD can easily recalculate ex-post the effect of this rate reduction and report that impact to an appropriate interim legislative committee. EDD can report on its performance regarding an improvement in recruiting and retaining businesses.

ADMINISTRATIVE IMPLICATIONS

TRD reports a low impact on the agency. Changes related to this proposal can be accomplished through annual form and instruction updates.

LG/jl