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

SPONSOR McCamley **ORIGINAL DATE LAST UPDATED** 2/6/2015 **HB** 110

SHORT TITLE New Tax Bracket & Income Tax Rates **SB**

ANALYST Dorbecker

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**	**FY18**	**FY19**		
$0.0	$31,100.0	$78,800.0	$81,700.0	$85,200.0	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

Relates to HB 21 and HB 137

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 110 amends the Income Tax General Provision Act, Section 7-2-7 NMSA 1978, to reduce the personal income tax rates of existing income tax brackets and create a new income tax bracket for high-income earners. The new income tax bracket applies to married individuals filing separately who have taxable income of over $45,000; heads of household, surviving spouses and married individuals filing joint returns with taxable income over $90,000; and single individuals or estates and trusts with taxable income over $60,000. Tables 1 through 3 show the existing and proposed structure of individual income tax rates.

Table 1. For married individuals filing separate returns

PROPOSED		CURRENT	
If the taxable income is:	The tax shall be:	If the taxable income is:	The tax shall be:
Not over $4,000	1.3% of taxable income	Not over $4,000	1.7% of taxable income
Over $4,000 but not over $8,000	$52 plus 2.8% of excess over $4,000	Over $4,000 but not over $8,000	$68 plus 3.2% of excess over $4,000
Over $8,000 but not over $12,000	$164 plus 4.3% of excess over $8,000	Over $8,000 but not over $12,000	$196 plus 4.7% of excess over $8,000
Over $12,000 but not over $45,000	$336 plus 4.5% of excess over $12,000	Over $12,000	$384 plus 4.9% of excess over $12,000
Over $45,000	$1,821 plus 5.9% of excess over $45,000		

Table 2. For heads of household, surviving spouses and married individuals filing joint returns

PROPOSED		CURRENT	
If the taxable income is:	The tax shall be:	If the taxable income is:	The tax shall be:
Not over $8,000	1.3% of taxable income	Not over $8,000	1.7% of taxable income
Over $8,000 but not over $16,000	$104 plus 2.8% of excess over $8,000	Over $8,000 but not over $16,000	$136 plus 3.2% of excess over $8,000
Over $16,000 but not over $24,000	$328 plus 4.3% of excess over $16,000	Over $16,000 but not over $24,000	$392 plus 4.7% of excess over $16,000
Over $24,000 but not over $90,000	$672 plus 4.5% of excess over $24,000	Over $24,000	$768 plus 4.9% of excess over $24,000
Over $90,000	$3,642 plus 5.9% of excess over $90,000		

Table 3. For single individuals and for estates and trusts

PROPOSED		CURRENT	
If the taxable income is:	The tax shall be:	If the taxable income is:	The tax shall be:
Not over $5,500	1.3% of taxable income	Not over $5,500	1.7% of taxable income
Over $5,500 but not over $11,000	$71.50 plus 2.8% of excess over $5,500	Over $5,500 but not over $11,000	$93.50 plus 3.2% of excess over $5,500
Over $11,000 but not over $16,000	$225.50 plus 4.3% of excess over $11,000	Over $11,000 but not over $16,000	$269.50 plus 4.7% of excess over $11,000
Over $16,000 but not over $60,000	$440.50 plus 4.5% of excess over $16,000	Over $16,000	$505.50 plus 4.9% of excess over $16,000
Over $60,000	$2,420.50 plus 5.9% of excess over $60,000		

There is no effective date of this bill. It is assumed the effective date is 90 days after this session ends. The provisions of the bill apply to taxable years beginning on or after January 1, 2015.

FISCAL IMPLICATIONS

TRD used 2012 tax year data to estimate the fiscal impact of the bill. TRD's methodology includes personal income growth rates obtained from general fund consensus revenue estimates.

TRD then used current personal income growth rates to calculate estimated tax revenue under current law and then applied the bill's proposed changes to obtain equivalent taxes. The difference between the proposed changes and the current law represents the revenue that would be generated if the proposed law is implemented.

SIGNIFICANT ISSUES

TRD notes the bill should not involve any significant administrative issues for the department as it follows the same basic rate structuring as prior law, but adds a new higher income classification and rate. The bill however, has the potential to dissuade high-income earners from relocating to New Mexico or accepting employment in the state due to the higher income taxes.

Further, HB 110 raises a potential equal protection concern between married individuals filing separately and single individuals. The flat-rate dollar amount taxed to each of these two classes at the highest taxable income threshold for each class is approximately the same at 4.04 percent. However, married individuals filing separately begin paying tax at the 5.9 percent rate on taxable income above $45,000, whereas single individuals do not begin paying taxes at the 5.9 percent rate until taxable income reaches $60,000.

TRD believes there may be assumptions built into the structure that married individuals filing separately may have more deductions available to them than single individuals (i.e. an allocable share of deductions related to children or home ownership), which could potentially form a rational basis for disparate treatment. With all other factors being equal, married individuals filing separately would be paying a higher rate on the initial $15,000 between $45,000 and $60,000 than single individuals. As such, the proposed changes by the bill run the risk of violating equal protection principles by treating single individuals more favorably than married individuals filing separately.

ADMINISTRATIVE IMPLICATIONS

TRD expects a minimal impact. The department will need to modify instructions, forms and publications related to the personal income and fiduciary income tax programs. GenTax and web applications will need to be reconfigured, as well as the modernized e-files (MeF) schemas and rules documentation. Taxpayers will need to be informed of the changes to withhold appropriately for the 2015 tax year. The costs can be absorbed with the annual renewal of the tax programs.

RELATIONSHIP

Relates to HB 137, reduce income tax and create new brackets; and, HB 21, phased-in supplemental income tax.

TECHNICAL ISSUES

TRD estimates the bill has a moderate IT impact (700 hours): Reducing the personal income tax rates for each existing bracket and adding a new bracket for higher income earners requires changes to GenTax and Taxpayer Access Point. These changes require extensive testing and can be included as part of the annual new tax year changes.

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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