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

SPONSOR Strickler **ORIGINAL DATE** 2/14/15 **LAST UPDATED** **HB** 279

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

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**	**FY18**	**FY19**		
$0.0	$0.0	$0.0	($17,000.0)	($30,000.0)	Recurring	General Fund

(Parenthesis ( ) indicate revenue decreases

Relates to HB16, Surtax on Certain Corporations; HB 286, Single Sales Factor for Corporate Income

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 279 phases in a reduction in the top corporate income tax (CIT) rate in 2017 and 2018 for taxpayers with net income over $500 thousand.

CIT Rate Changes in HB279			
Taxable Year	**If Net Income Is:**	**CIT Rate**	
		Current Law	**HB 279**
2016	Not over $500 thousand	4.8%	
	$500,000 - $1 million	$24 thousand + 6.2% of income over $500 thousand	
	Over $1 million	$56 thousand + 6.6% of income over $1 million	
2017	Not over $500 thousand	4.8%	
	Over $500 thousand	$24 thousand + 6.2% of income over $500 thousand	$24 thousand + 5.4% of income over $500 thousand
2018 & after	Not over $500 thousand	4.8%	
	Over $500 thousand	$24 thousand + 5.9% of income over $500 thousand	$24 thousand + 4.9% of income over $500 thousand

FISCAL IMPLICATIONS

TRD used tax year 2012 data to estimate the bill's fiscal impact. The department applied proposed rates to income apportioned to New Mexico to calculate anticipated percentage change in CIT revenue before fiscalizing the impact (converting from tax years to fiscal years). The percentage change in anticipated was applied against the February 2015 consensus CIT estimate. Based on this methodology TRD estimates the bill will reduce the CIT revenue to the general fund by approximately $17 million in FY18 and $30 million in FY19.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to revenue reductions pursuant to this tax rate reduction revenues may be insufficient to cover growing recurring appropriations.

SIGNIFICANT ISSUES

The most recent significant amendment to the Corporate Income and Franchise Tax Act occurred in 2013, when legislation was enacted to lower the top corporate income tax (CIT) rate from 7.6 percent to 5.9 percent over five years. The bill also permitted single sales factor apportioning for certain manufacturing corporations phased in over five years and required combined reporting for certain corporations.

This bill further reduces the top rate from 5.9 percent to 4.9 percent, equal to the top personal income tax (PIT) rate imposed by the Income Tax Act.

Prior to the 2013 amendments, New Mexico's top corporate income tax rate of 7.6 percent was considered high compared with the national average of 6.4 percent. In 2011, the Council on State Taxation (COST) commissioned Ernst & Young to perform a 50-state study of effective tax rate/after-tax return on investment over a 30-year investment, New Mexico ranked last. The study found that tax rates and a complex tax credit incentive system are a burden on firms considering investments in New Mexico and are "almost certainly impeding economic growth." Among other options, the New Mexico Tax Research Institute (NMTRI) noted a reduction in the top corporate rate would make New Mexico more appealing to business investment. The 2013 reductions placed New Mexico below the national average and in the middle of the pack with other states.

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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