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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/7/18

SPONSOR SPAC LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE New income Tax Brackets SB CS/303/SPAC

ANALYST Iglesias

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY18	FY19	FY20	FY21	FY22		
--	Large Positive*				Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

\*Analysis needed from the Taxation and Revenue Department to determine the fiscal impact of this bill. See fiscal implications section.

Conflicts with HB4, HB 272, HB288, SB49, SB302s/SPAC

### SOURCES OF INFORMATION

LFC Files

Responses Not Received From  
Taxation and Revenue Department (TRD)

### SUMMARY

Senate Public Affairs Committee (SPAC) substitute for Senate Bill 303 amends the Income Tax Act, Section 7-2-7 NMSA 1978, to create three new income tax brackets for high-income earners applying on or after tax years 2019.

The first new income tax bracket applies a rate of 5.9 percent to married individuals filing separately who have taxable income over \$75,000; heads of household, surviving spouses, and married individuals filing joint returns with taxable income over \$150,000; and single individuals or estates and trusts with taxable income over \$100,000.

The second new income tax bracket applies a rate of 6.9 percent to married individuals filing separately who have taxable income over \$150,000; heads of household, surviving spouses, and married individuals filing joint returns with taxable income over \$300,000; and single individuals or estates and trusts with taxable income over \$200,000.

The third new income tax bracket applies a rate of 7.9 percent to married individuals filing separately who have taxable income over \$225,000; heads of household, surviving spouses, and married individuals filing joint returns with taxable income over \$450,000; and single individuals or estates and trusts with taxable income over \$300,000.

The table below shows the existing individual income tax rates and the new proposed brackets.

Filing Status	Income Range	Tax Rate
Married Filing Separate	Not over \$4,000	1.7% of taxable income
	\$4,000 to \$8,000	\$68 plus 3.2% of excess over \$4,000
	\$8,000 to \$12,000	\$196 plus 4.7% of excess over \$8,000
	\$12,000 to \$75,000	\$384 plus 4.9% of excess over \$12,000
	<b>\$75,000 to \$150,000</b>	<b>\$3,471 plus 5.9% of excess over \$75,000</b>
	<b>\$150,000 to \$225,000</b>	<b>\$7,896 plus 6.9% of excess over \$150,000</b>
	<b>Over \$225,000</b>	<b>\$13,071 plus 7.9% of excess over \$225,000</b>
Head of Household; Surviving Spouse; Married Filing Joint	Not over \$8,000	1.7% of taxable income
	\$8,000 to \$16,000	\$136 plus 3.2% of excess over \$8,000
	\$16,000 to \$24,000	\$392 plus 4.7% of excess over \$16,000
	\$24,000 to \$150,000	\$768 plus 4.9% of excess over \$24,000
	<b>\$150,000 to \$300,000</b>	<b>\$6,942 plus 5.9% of excess over \$150,000</b>
	<b>\$300,000 to \$450,000</b>	<b>\$15,792 plus 6.9% of excess over \$360,000</b>
	<b>Over \$450,000</b>	<b>\$26,142 plus 7.9% of excess over \$450,000</b>
Single Individuals; Estates and Trusts	Not over \$5,500	1.7% of taxable income
	\$5,500 to \$11,000	\$93.50 plus 3.2% of excess over \$5,500
	\$11,000 to \$16,000	\$269.50 plus 4.7% of excess over \$11,000
	\$16,000 to \$100,000	\$504.50 plus 4.9% of excess over \$16,000
	<b>\$100,000 to \$200,000</b>	<b>\$4,620.50 plus 5.9% of excess over \$100,000</b>
	<b>\$200,000 to \$300,000</b>	<b>\$10,520.50 plus 6.9% of excess over \$200,000</b>
	<b>Over \$300,000</b>	<b>\$17,420.50 plus 7.9% of excess over \$300,000</b>

The effective date of this bill is January 1, 2019.

### FISCAL IMPLICATIONS

This bill creates three new tax rates and brackets for high-income earners. Because this is a tax increase for these earners, it will have a large positive revenue impact to the general fund. Analysis from the Taxation and Revenue Department (TRD) is needed to determine the fiscal impacts of this bill. However, based on TRD’s fiscal analysis of other bills making changes, it is likely this bill will generate over \$50 million annually.

According to TRD, the Tax Cuts and Jobs Act (TCJA)—federal tax reform—does not change the tax calculation mechanics in New Mexico; however, it does change the mechanics to calculate

federal adjusted gross income. These changes have base expanding and base reducing effects that have not been fully modeled for New Mexico. LFC staff recommend postponing changes to personal income taxes until TRD has had sufficient time to determine the impacts of federal tax reform.

## SIGNIFICANT ISSUES

In response to similar legislation (e.g. 2018 HB272), TRD has provided the following statement on tax policy implications:

The proposal has implications for two goals of tax policy. This first is “vertical equity,” the principle that tax burdens should reflect an individual’s ability to pay. Since the Income Tax is the most direct way of adjusting liability to reflect income levels, it is the most appropriate means of achieving vertical equity. The second implication has to do with impacts of the tax system on economic growth. The top individual income tax rate is often cited in multi-state comparisons to describe how the state’s tax system impacts persons wishing to work or invest in the state. Thus, by raising the top income tax rate, the bill has the potential to negatively affect New Mexico’s ranking in such comparisons.

Surrounding states in the four-corners region have similar top rates as those currently in New Mexico statute. Colorado’s flat PIT rate is 4.63 percent, while Texas has no personal income tax. The Arizona top marginal rate is 4.54 percent, which kicks in at \$300,000 for MFJ. Utah, like Colorado, has a flat PIT rate, slightly higher than Colorado at 5.0 percent. Appendix A provides a chart with all states top marginal income tax rates as of 2016.

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

- House Bill 4 also amends the personal income tax rates and brackets.
- House Bill 143 changes the definition of net income in the Income Tax Act to remove the exclusion of state income and local sales taxes included in the taxpayer’s federal itemized deductions from the base income for taxpayers other than estates or trusts. The effect is to allow the state and local tax deductions for state income tax purposes.
- House Bill 272 also amends the personal income tax rates and brackets for high-income earners.
- Senate Bill 49 makes a variety of tax code changes, including providing for a flat income tax rates of 2.5 percent on taxable income above certain levels and repeals a variety of income tax expenditures.
- Senate Public Affairs Committee substitute for SB302 also amends the personal income tax rates and brackets for high-income earners.

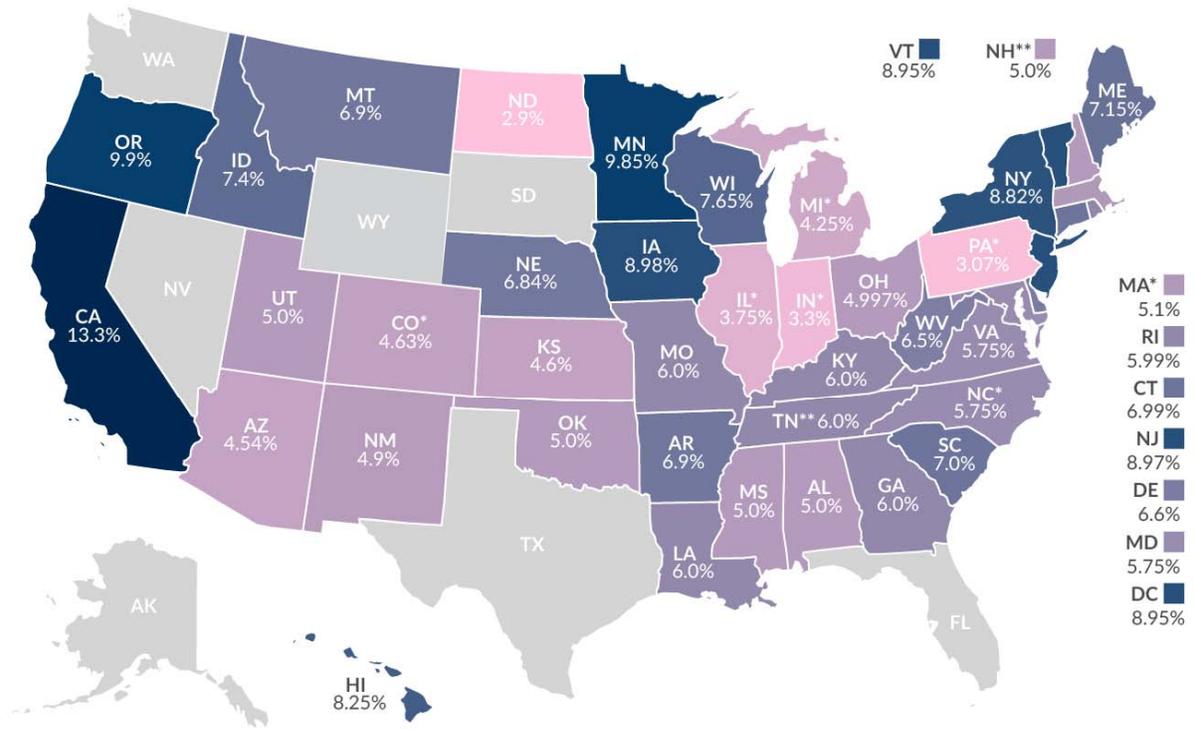
### Does the bill meet the Legislative Finance Committee tax policy principles?

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

APPENDIX

# How High Are Income Tax Rates in Your State?

Top State Marginal Individual Income Tax Rates, 2016



Note: (\*) State has a flat income tax. (\*\*) State also only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. It is not an effective marginal tax rate, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included. Source: State tax forms and instructions.

