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FISCAL IMPACT REPORT

ORIGINAL DATE 1/29/21
LAST UPDATED _____ **HB** 174

SPONSOR Anderson

SHORT TITLE Double Certain Tax Exemptions **SB** _____

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23	FY24	FY25		
	(\$1,877.0)	(\$1,787.0)	(\$1,698.0)	(\$1,609.0)	Recurring	General Fund

Parenthesis () indicate revenue decreases

SOURCES OF INFORMATION

LFC Files

Synopsis of Bill

House Bill 174 doubles the exemption for over 65 or blind from a maximum of \$8,000 to a maximum of \$16,000. The bill does not increase the AGI dollar limits for the various levels of exemption.

There is no effective date of this bill. It is assumed that the effective date is 90 days after this session ends. (June 18, 2021). The provisions of the bill are applicable for tax years beginning January 1, 2021.

FISCAL IMPLICATIONS

This proposal would replace the table in 7-2-5.2 NMSA 1978 with the following:

	Current Law	HB-174 (2021) Proposed
If adjusted gross income is:	The maximum amount of exemption allowable under this section shall be:	The maximum amount of exemption allowable under this section shall be:
For married filing separately		
Not over \$15,000	\$8,000	\$16,000
Over \$15,000 but not over \$16,500	\$7,000	\$14,000
Over \$16,500 but not over \$18,000	\$6,000	\$12,000
Over \$18,000 but not over \$19,500	\$5,000	\$10,000
Over \$19,500 but not over \$21,000	\$4,000	\$8,000

Over \$21,000 but not over \$22,500	\$3,000	\$6,000
Over \$22,500 but not over \$24,000	\$2,000	\$4,000
Over \$24,000 but not over \$25,500	\$1,000	\$2,000
Over \$25,500	\$0	\$0
For Married filing jointly, surviving spouses and heads of household		
Not over \$30,000	\$8,000	\$16,000
Over \$30,000 but not over \$33,000	\$7,000	\$14,000
Over \$33,000 but not over \$36,000	\$6,000	\$12,000
Over \$36,000 but not over \$39,000	\$5,000	\$10,000
Over \$39,000 but not over \$42,000	\$4,000	\$8,000
Over \$42,000 but not over \$45,000	\$3,000	\$6,000
Over \$45,000 but not over \$48,000	\$2,000	\$4,000
Over \$48,000 but not over \$51,000	\$1,000	\$2,000
Over \$51,000	\$0	\$0
For single individuals		
Not over \$18,000	\$8,000	\$16,000
Over \$18,000 but not over \$19,500	\$7,000	\$14,000
Over \$19,500 but not over \$18,000	\$6,000	\$12,000
Over \$18,000 but not over \$19,500	\$5,000	\$10,000
Over \$19,500 but not over \$21,000	\$4,000	\$8,000
Over \$21,000 but not over \$22,500	\$3,000	\$6,000
Over \$22,500 but not over \$24,000	\$2,000	\$4,000
Over \$24,000 but not over \$28,500	\$1,000	\$2,000
Over \$28,500	\$0	\$0

Although TRD has changed the methodology for determining the total general fund cost of this tax expenditure through the various editions of the TRD Tax Expenditure Report, the following table is LFC staff's attempt to make the data consistent. Notice that since the levels of the various amounts of exemption have not changed since 1987, the claims and money have, in general, trended downward. The most useful methodology to estimate the impact of this proposal is to use a trend analysis for both the number of claims and the fiscal impact of doubling the amounts of the exemption for each AGI class. (The adjustments are shown shaded.)

Fiscal Impact: 65 and older or blind Exemption Tax Year (Calendar)									
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Claims	92,404	94,037	107,720	105,739	101,315	102,738	100,898	99,888	94,987
Expenditure (\$ thousands)	\$2,607	\$2,578	\$2,686	\$2,641	\$2,421	\$2,452	\$2,443	\$1,997	\$1,875
	2020	2021	2022	2023	2024	2025			
	100,906	101,094	101,281	101,468	101,656	101,843			
	\$1,966	\$1,877	\$1,787	\$1,698	\$1,609	\$1,520			

This bill expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the significant risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. This bill may be counter to the LFC tax policy principle of adequacy, efficiency, and equity. Due to the increasing cost of tax expenditures, revenues may be insufficient to cover growing recurring appropriations. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or be held for future consideration.

SIGNIFICANT ISSUES

As noted in the fiscal Implications section, this Over 64 and Blind exemption has not been indexed to inflation or income growth since 1987. The largest benefit was likely in the last 1980s, when over 80,000 claims were made, and the expenditures probably exceeded \$5 million.

PERFORMANCE IMPLICATIONS

Now that an accurate estimate of the expenditures for this program is published annually in the TRD Tax Expenditure Report, the LFC tax policy of accountability is met with the bill's requirement to report annually the data compiled from the reports from taxpayers taking the exemption, although there has never been any collateral information, nor is it possible to establish at this late date a clear cut, testable goal or motivation. The exemption was apparently enacted to help ameliorate elderly poverty. However, an income-tested, refundable over-65 rebate might serve the purpose better.

LG/sb