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FISCAL IMPACT REPORT

SPONSOR Sandel DATE TYPED 1/29/98 HB 100
 SHORT TITLE Various Tax Deductions SB _____
 ANALYST Gallegos

REVENUE (Thousands)

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY99	FY00			
\$ <u>(29,300)</u>	\$ <u>(31,700)</u>	\$ <u>NA</u>	<u>Recurring (1)</u>	<u>Gen. Fund</u>
\$ <u>(5,200)</u>	\$ <u>(5,600)</u>	\$ <u>NA</u>	<u>Recurring (2)</u>	<u>Gen. Fund</u>
\$ <u>(8,500)</u>	\$ <u>(8,500)</u>	\$ <u>NA</u>	<u>Recurring (3)</u>	<u>Gen. Fund</u>
\$ <u>(1,900)</u>	\$ <u>(1,800)</u>	\$ <u>NA</u>	<u>Recurring (4)</u>	<u>Gen. Fund</u>
\$ <u>(3,600)</u>	\$ <u>(9,000)</u>	\$ <u>NA</u>	<u>Recurring (5)</u>	<u>Gen. Fund</u>
\$ <u>(2,700)</u>	\$ <u>(6,700)</u>	\$ <u>NA</u>	<u>Recurring (6)</u>	<u>Local Gov'ts</u>
\$ <u>0.0</u>	\$ <u>2,100.0</u>	\$ <u>NA</u>	<u>Recurring (7)</u>	<u>Gen. Fund</u>
\$ <u>(48,500)</u>	\$ <u>(56,600)</u>	\$ <u>NA</u>	<u>Recurring (8)</u>	<u>Gen. Fund</u>
\$ <u>(2,700)</u>	\$ <u>(6,700)</u>	\$ <u>NA</u>	<u>Recurring (9)</u>	<u>Local Gov'ts</u>

(Parenthesis () Indicate Revenue Decreases)

- (1) Loss as of a result of decrease in personal income tax across the board.
- (2) Loss as of reduction in the top rates from 8.2% to 7.9%.
- (3) Loss as a result of increasing the rebates across the Low Income Tax Rebate Tables.
- (4) Loss as a result of expanding the Modified Gross Income amounts in the Low-Income Tax tables from a top end of \$14,000 to \$18,000.
- (5) Loss to general fund as a result of new deduction.
- (6) Loss to local governments as a result of new deduction.
- (7) Gain as a result of repealing an income tax credit.
- (8) Total Loss to general fund because items (1) through (5) plus item (7)
- (9) Total Loss to local governments because new deduction.

Duplicates/Conflicts with/Companion to/Relates to HB15, HB18, HB24, HB83, HB175,
SB20, SB47, SB54

SOURCES OF INFORMATION

Taxation and Revenue Department

SUMMARY

Synopsis of Bill

This bill reduces the personal income tax across the board, lowers the top marginal income tax rate, expands the low-income tax table modified gross income amounts, increases the rebates available under the low-income tax rebate, creates a new deduction in the Gross Receipts and Income Tax Act and repeals an Income Tax Act credit.

- Section 1- Reduces the income tax rates by 4% across the boards and reduces the top marginal rate from 8.5% to 7.9%.
- Section 2- Increase the maximum modified gross income qualification from \$14,000 to \$18,000 and increases the amount of the rebates within the table at every level.
- Section 3- Makes a technical correction to the definition of "manufactured home." The correction is changing the word "moveable" to "movable". Also, adds a new definition for "prescription drugs."
- Section 4- Creates a new deduction for the sale of "prescription drugs" under gross receipts and governmental gross receipts.
- Section 5- Repeals the current income tax credit for unreimbursed prescription drug costs.

This proposal makes the income tax amendments, including the repeal of the income tax credit applicable to taxable years beginning on or after January 1, 1999. It also makes the new definition and deduction effective January 1, 1999.

FISCAL IMPLICATIONS

The overall net effect of this proposal is a net loss to the general fund of \$48,500 in FY99 and \$56,600 in FY99. The cost associated with the particular components of the proposed tax cut are detailed in the revenue table.

Local governments are expected to face a net loss of \$2,700 in FY99, and \$6,700 on a full year basis.

ADMINISTRATIVE IMPLICATIONS

This proposed bill primarily impacts the current PIT system and the Taxation and Revenue Department has estimated that it will need .1 FTE at a cost of \$4,500 to make the necessary changes. The new TRIMS system may minimize program maintenance costs.

CONFLICT/DUPLICATION/COMPANIONSHIP/RELATIONSHIP

HB15, HB18, HB24, HB83, HB175, SB20, SB47, SB54

TECHNICAL ISSUES

1. The Taxation and Revenue Department suggests that the rebate for MGI table amounts \$6,500 to \$7,000 and \$7,000 to \$7,500 to be \$165 instead of \$150. This change would increase the by an additional \$67,000 in FY99.
2. Total purchases of prescription drugs by New Mexico residents = \$507 million for FY 1998; of this total, \$231 million will be purchased at retail within the state from taxable entities (excluding hospital pharmacies); of this total 28% will be out-of-pocket expenses totaling \$65 million.

POSSIBLE QUESTIONS

Who will actually benefit by creation of the deduction on prescription drugs, in general? Most individuals have insurance or HMO plans that will pay a major portion, if not all of the price of the prescription, thereby making the deduction favorable to the insurance companies and HMO's. Is there any evidence that health insurance rates will go down if the tax is lifted?

MFG/njw