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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/25/09

SPONSOR MP Garcia LAST UPDATED \_\_\_\_\_ HB 877

SHORT TITLE Restore Income Tax Progressivity SB \_\_\_\_\_

ANALYST Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	25,300.0	\$82,100.0	Recurring	General Fund
		*see narrative for significant out-year impacts		

(Parenthesis ( ) Indicate Revenue Decreases)

Conflicts with HB262, HB64, HB346, SB508

#### SOURCES OF INFORMATION

LFC Files  
Taxation and Revenue Department (TRD)

Responses Received From  
Taxation and Revenue Department (TRD)

#### SUMMARY

##### Synopsis of Bill

House bill 877 adds additional brackets to the personal income tax structure with higher tax rates. Three new brackets will be added over three years and in tax year 2012, the top rate of 6.8 percent will kick in at \$100,000 taxable income for married and head of households.

**HB877 Changes to Personal Income Tax Rate Structure**

<b>Taxable Income Thresholds by Filing Status</b>						
Married Filing Jointly, Surviving Spouses, Head of Household	Married Filing Separate	Single	2009	2010	2011	2012
<8000	<4000	<5500	1.7%	1.7%	1.7%	1.7%
8000-16000	4000-8000	5500-11000	3.2%	3.2%	3.2%	3.2%
16000-24000	8000-12000	11000-16000	4.7%	4.7%	4.7%	4.7%
24000-40000	12000-20000	16000-26000	<b>4.9%</b>	<b>4.9%</b>	<b>4.9%</b>	<b>4.9%</b>
40000-64000	20000-32000	26000-42000		<b>5.3%</b>	<b>5.3%</b>	<b>5.3%</b>
64000-100000	32000-50000	42000-65000			<b>6.0%</b>	<b>6.0%</b>
100000+	50000+	65000+				<b>6.8%</b>

**FISCAL IMPLICATIONS**

Using tax information from tax year 2007 and updating using the consensus forecast of personal income, the fiscal impact will reach over \$140 million in FY2012. According to the TRD interpretation, the rate structure reverts to the FY10 structure in FY13.

<b>Estimated Revenue Impact*</b>			
<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>
0	25,300	82,100	139,200

\* Source: TRD

**SIGNIFICANT ISSUES**

The 2003 tax cut significantly altered the tax structure in New Mexico. The reduction made the top rate more competitive with surrounding states but also made the tax much less progressive. The majority of taxpayers, who earn less than approximately \$50,000, were unaffected by the cuts while top earning taxpayers received a significant reduction in income tax. Several measures over the last several years targeted the low and moderate income taxpayers, however, including the working families tax credit, the child care credit, and the low and middle income exemption.

	<b>Top Personal Income Tax Rate</b>
New Mexico (current law)	4.90%
New Mexico (proposed law)	6.80%
Arizona	4.54%
Utah	5.00%
Colorado	4.63%
Oklahoma	5.50%
Texas	N/A

## PERFORMANCE IMPLICATIONS

A progressive income tax structure is more resilient in bad economies and has a positive elasticity to changes in personal income. LFC analysis has shown that the elasticity of PIT tax revenue has declined from above 1 to just below 1 which means a higher personal income growth is required to generate the same tax revenue.

## ADMINISTRATIVE IMPLICATIONS

New forms and tax tables would have to be created.

## RELATIONSHIP

House bill 346 changes the top personal income tax rate from the current 4.9 percent to 6 percent. Senate bill 508 and House bill 64 restore all rates to the rates imposed prior to 2004.

## TECHNICAL ISSUES

TRD has interpreted the language to set up a rate structure in tax year 2010 that will be permanent and two temporary rate structures of 2011 and 2012. If this is not the intent, the language should be clarified.

NF/mt

***The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:***

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

***More information about the LFC tax policy principles will soon be available on the LFC website at [www.nmlegis.gov/lcs/lfc](http://www.nmlegis.gov/lcs/lfc)***