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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/25/09

SPONSOR Ortiz Y Pino LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Federal Income Deductions as State Income SB 523

ANALYST Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	\$68,700	\$70,300	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Conflicts with HB262

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 523 amends the definition of “net income” in the Income Tax Act to subtract the amount of state and local taxes from the taxpayers itemized deductions. The result is that state and local taxes will be added back into net income for the purposes of determining tax liability

### FISCAL IMPLICATIONS

According to TRD, marginal tax rates were applied to 2006 local and state tax itemized deductions data for New Mexico. The marginal tax rate for taxpayers with adjusted gross income (AGI) in excess of \$50,000 was assumed to be 4.9%. For those with AGI less than \$50,000 the marginal tax rate was assumed to be 3.2%. The resulting increase in revenues was projected to FY2010 and future years using forecast growth rates for personal income provided by the Bureau of Business and Economic Research.

## SIGNIFICANT ISSUES

Only five other states follow federal provisions that allow either state and local income taxes or state and local sales taxes to be claimed as itemized deductions. However, 11 states that do not allow deductions for state and local income taxes do permit deductions for sales taxes that were deducted for federal tax purposes.

### States that allow deduction for state and local taxes

Arizona	Oklahoma
Hawaii	Rhode Island
New Mexico	Vermont

### States that allow deduction for state sales tax

Delaware	Nebraska
Iowa	New York
Kansas	North Dakota
Maryland	Utah
Missouri	Virginia
Montana	

Source: Wisconsin Legislative Fiscal Bureau

## CONFLICT

HB 262 also changes definitions under the Income Tax Act and in particular deletes the definition of “net income” which is the only definition changed here.

## TECHNICAL ISSUES

TRD recommends defining “state and local taxes” to clarify state and local income and property tax and not sales tax. However, the federal form for itemized deductions is clear on what is to be included.

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)***