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FISCAL IMPACT REPORT

SPONSOR: Larranaga DATE TYPED: 1/29/03 HB 56

SHORT TITLE: Expand Capital Gains Deduction SB _____

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(31,100.0)	(32,600.0)	Recurring	State General Fund

(Parenthesis () Indicate Revenue Decreases)

Conflicts with HB 167, SB 167

SOURCES OF INFORMATION

Responses Received From

SUMMARY

Synopsis of Bill

House Bill 56 would expand the present law deduction for net capital gain income for purposes of the personal income tax. Under present law, a deduction is allowed for up to \$1,000 per year of net capital gains. The proposal would allow a deduction for the greater of \$1,000 or 50% of net capital gains as reported on the taxpayer's federal income tax return.

FISCAL IMPLICATIONS

Information on net capital gains is based on federal tax returns of New Mexico residents for tax year 1999 published by the Internal Revenue Service. The figures have been projected based on estimates of capital gains realizations from the U.S. Congressional Budget Office and other states' revenue agencies. Increased deductions are calculated after taking into account the deduction for up to \$1,000 of net capital gains that is available under present law.

TECHNICAL ISSUES

The bill does not contain a provision specifying to which tax years the proposal would apply. This leaves open the possibility of taxpayers filing amended returns for all tax years that are still open to amendment. If the intention is to provide relief going forward, the provisions should be made applicable “to taxable years beginning on or after January 1, 2003.” This effective date was assumed in preparing the fiscal impact estimate.

OTHER SUBSTANTIVE ISSUES

TRD has provided the following table :

Estimated Distributional Impacts of the Capital Gains Proposal For Tax Year 2003

Adjusted Gross Income		Net Capital Gains	Increased Deductions	Decreased Tax Liability
		(millions)	(millions)	(thousands)
\$0 or Less	\$10,000	\$22.3	\$8.3	\$125
\$10,000	\$20,000	\$15.0	\$4.2	\$73
\$20,000	\$30,000	\$17.9	\$5.7	\$171
\$30,000	\$50,000	\$45.0	\$16.2	\$809
\$50,000	\$75,000	\$70.1	\$27.8	\$1,947
\$75,000	\$100,000	\$70.1	\$29.9	\$2,170
\$100,000	\$150,000	\$104.6	\$46.8	\$3,509
\$150,000	\$200,000	\$69.5	\$32.2	\$2,419
\$200,000	Over	\$541.5	\$264.6	\$19,845
	Total	\$956.1	\$435.8	\$31,068

SS/prr:njw