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FISCAL IMPACT REPORT

SPONSOR:	PONSOR: Robinson		DATE TYPED: 2/1	4/03 HB		
SHORT TITLE: Net Capital Gain		Net Capital Gain	Income Tax Deduction	SB	441	
				ANALYST:	Smith	
			REVENUE			
Estimated Revenue						
Estim	ated	Revenue	Subsequent Years Impact	Recurr or Non-	0	Fund Affected
Estim FY03		Revenue FY04	-		0	
			-		-Rec	

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From

TRD

SUMMARY

Synopsis of Bill

Senate Bill 441 proposes to eliminate the state personal income tax on net capital gains income of New Mexico taxpayers. Under present law taxpayers can deduct up to \$1,000 per year in net capital gains income. The proposal would strike present law language in section 7-2-34 limiting the deduction to \$1,000, effectively making all net capital gains income deductible.

FISCAL IMPLICATIONS

TRD notes that the fiscal impact is based on a forecast level of net capital gains realizations of \$956 million in tax year 2003. An estimated \$42 million of this amount would be deductible under present law provisions. The proposal would provide a deduction for the remaining \$913 million. The average effective tax rate on this income would be 7.1% under present law income tax rates. If the personal income tax reductions proposed in HB 167 and SB 167 were approved prior to adoption of this bill, the average effective tax rate would fall to 6.7% in tax year 2003 and lower in subsequent years. This would reduce the annual fiscal impact associated with this proposal.

Senate Bill 441 -- Page 2

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill would conflict with both HB167 and SB167

OTHER SUBSTANTIVE ISSUES

Under federal income tax statutes, state income tax payments are deductible for purposes of calculating federal income tax. Thus, because this proposal would reduce state income tax liabilities, it would also reduce these deductions, thereby increasing the taxpayer's federal income tax liability. This reduces the net benefits of the tax reduction for the taxpayer. For example, if a taxpayer is in the 30% tax bracket, the net benefit to the taxpayer of the state tax reduction would be reduced by 30%.

SS/njw