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FISCAL IMPACT REPORT

SPONSOR: Youngberg DATE 10/31/03 TYPED: 10/31/03 HB 18

SHORT TITLE: Income Tax Relief SB _____

ANALYST: Taylor, Neel, Valenzuela

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
(14,700.0)	(57,700.0)	(57,700.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

NM Taxation and Revenue Department (TRD)
 NM Department of Transportation (DOT)
 NM Finance Authority (NMFA)

Related Bills:

SB5, SB 21, SB 15, HB 15

SUMMARY

HB 18 proposes changes to the New Mexico personal income tax system. The overall fiscal impact on the General Fund is \$14.7 million in FY04 and \$57.7 million in FY05 and subsequent year.

SYNOPSIS OF BILL

Tax Exemption on Income of Persons 65 and Older. Section 1 extends the exemption of retirement income so that all persons aged 65 and older would be able to exempt at least \$2,500 of income. Currently, the exemption starts at \$8,000, gradually decreases at higher income levels, and ends completely at incomes over \$51,000 for married persons and \$28,500 for single persons. Applicable - Tax Year 2004.

Income Tax Filing Categories Reduced. Sections 2 through 5 eliminate the separate personal income tax tables for heads of household and roll the head of household category into the tax tables covering surviving spouses and married persons filing joint returns. The separate tables for head of households imposed higher taxes on that group compared with the married individuals table. Applicable - Tax Year 2004.

Low Income Rebates Renamed; Rebate Amounts Increased. Section 6 changes the name of the “Low Income Comprehensive Rebate” to the “Family and Individual Rebate”, expands the table to increase the number of exemptions from 6 to 7, broadens the income groupings, lengthens the table so that larger families with incomes between \$22,000 and \$39,000 receive rebates (as income increases, family size must also increase to be eligible) and increases the rebate amounts. The definition of modified gross income is amended to include the value of food stamp benefits. Applicable - Tax Year 2004.

Additional Exemption Amounts. Section 7 increases the value of the personal exemption amount for low and moderate income taxpayers up to a maximum of \$3,000 per exemption. The value of the exemption is reduced as income increases up to a maximum amount at which point it goes to zero. The rate of the phased reductions is adjusted for the number of exemptions. Single individuals with adjusted gross income less than \$8,000 receive the full \$3,000 exemption; the value of exemption is gradually reduced for greater incomes, completely phasing out at \$28,000. Married individuals filing joint returns with adjusted gross income less than \$18,000 receive the full \$3,000 exemption; the value of the exemption is gradually reduced at greater incomes, ending at \$48,000. Heads of households with adjusted gross income less than \$15,000 receive the full \$15,000 exemption; it is gradually reduced at greater incomes and fully phased-out at \$40,000. Applicable - Tax Year 2004.

SIGNIFICANT REVENUE ISSUES

Tax Exemption on Income of Persons 65 and Older. The benefit from this reduction is targeted to those persons with income too high to qualify for the current exemption.

Income Tax Filing Categories Reduced. According to TRD, this provision would provide tax relief to 13,000 of the 140,000 families filing taxes under the head of household option. Families in this category pay higher income taxes than two-parent families.

Low Income Tax Rebates. The BRTC recommended changing the name to FAIR and increasing rebate amounts as a means of targeting relief against gross receipts taxes on food to low and moderate income families, particularly large families. The rebates are increased to a level sufficient to offset food taxes. The change in the definition of income to include the value of food stamps could prove to be a disincentive for the use of food stamps. This would effectively shift some of the burden of supporting those low-income persons from the federal government to the state.

Additional Income Tax Exemptions. The BRTC recommended increasing income tax exemptions for low and moderate income persons and families as a means of providing income tax relief for income groups that did not benefit from the income tax cut passed in last year’s session.

FISCAL IMPLICATIONS BY FUND AND GOVERNMENT ENTITY

The Fiscal Implications are summarized in table below. Dollars are in millions.

Provision	General Fund			OSF	Road Fund	
	FY04	FY05	FY06		FY04	FY05
1 Income Tax Filing Categories Reduced	(1.2)	(3.2)	(2.0)			
2 Low Income Rebates Renamed; Rebate Amounts increased		(22.0)	(22.0)			
3 Personal Exemption Increases	(8.5)	(22.2)	(22.2)			
4 Tax Exemption on Income of Persons 65 and Older	(5.0)	(10.3)	(10.3)			
Total	(14.7)	(57.7)	(56.5)			

BT:SN:MFV/yr