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## FISCAL IMPACT REPORT

SPONSOR Powdrell-Culbert DATE TYPED 1/28/04 HB 137

SHORT TITLE Remove Bond Interest from Base Income SB \_\_\_\_\_

ANALYST Taylor

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
(1,900.0)	(7,600.0)	(6,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

Response Received From  
Taxation and Revenue Department

### SUMMARY

#### Synopsis of Bill

House Bill 137 proposes to amend the definition of base income by removing interest received on a state or local government bond from the definition. The definition of local bond is also removed. Thus, interest earnings income from all state and local government bonds would no longer be subject to state income taxation. Currently, only interest earnings from New Mexico state and local bonds are exempt.

The bill carries no effective date.

### FISCAL IMPLICATIONS

TRD estimates that eliminating out-of-state bond interest revenues would reduce state general fund revenues by \$7.6 million in FY05. The estimate is based on 2002 tax return data. Taxpayers reported \$218 million of interest earnings from all state and local bonds. About \$107 million of this was from New Mexico bonds, leaving \$111 million in out of state bonds. Multiplying \$111 million by the average tax rate of 6.9 percent for persons reporting this income yields \$7.6 million. The lower revenue loss reported in subsequent years reflects the lower income tax rates enacted last year.

**ADMINISTRATIVE IMPLICATIONS**

TRD reports modest administrative impacts than can be absorbed with existing resources.

**OTHER SUBSTANTIVE ISSUES**

TRD notes that exempting out-of-state bonds from income taxes reduces the relative advantage provided to New Mexico bonds.

**BT/lg:yr**