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## FISCAL IMPACT REPORT

SPONSOR Stewart DATE TYPED 02/11/05 HB 844

SHORT TITLE Heads Of Household Income Tax Relief SB \_\_\_\_\_

ANALYST Padilla-Jackson

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(\$1,250.0)*	(\$2,240.0)	(\$1,840.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

\* Due to the assumed effective date, FY05 would only accrue half of a full-year benefit.

### SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

House Bill 844 amends the Income Tax Act to provide tax relief to heads of households. The bill would apply the same income tax rate structure currently applied to married individuals filing joint returns to heads of household. One major change is that the bill would allow a head of household to qualify for the lower tax rate structure earning slightly higher income. The present and newly proposed tax rate structures are summarized in the table below.

<b>Proposed Income Tax Rates for Heads of Household</b>			
If Taxable Income Is:	The Tax Shall Be:		
	Taxable Year beginning in 2005	Taxable Year beginning in 2006	Taxable Year beginning on or after 2007
< \$8,000	1.7% of Taxable Income	1.7% of Taxable Income	1.7% of Taxable Income
\$8,000 > \$16,000	\$136 plus 3.2% of excess over \$8,000	\$136 plus 3.2% of excess over \$8,000	\$136 plus 3.2% of excess over \$8,000
\$16,000 > \$24,000	\$392 plus 4.7% of excess over \$16,000	\$392 plus 4.7% of excess over \$16,000	\$392 plus 4.7% of excess over \$16,000
> \$24,000	\$768 plus 6% of excess over \$24,000	\$768 plus 5.3% of excess over \$24,000	\$768 plus 4.9% of excess over \$24,000

<b>Existing Tax Rates for Heads of Household</b>			
If Taxable Income Is:	The Tax Currently is:		
	Taxable Year beginning in 2005	Taxable Year beginning in 2006	Taxable Year beginning on or after 2007
< \$7,000	1.7% of Taxable Income	1.7% of Taxable Income	1.7% of Taxable Income
\$7,000 > \$14,000	\$119 plus 3.2% of excess over \$7,000	\$119 plus 3.2% of excess over \$7,000	\$119 plus 3.2% of excess over \$7,000
\$14,000 > \$20,000	\$343 plus 4.7% of excess over \$14,000	\$343 plus 4.7% of excess over \$14,000	\$343 plus 4.7% of excess over \$14,000
> \$20,000	\$625 plus 5.3% of excess over \$20,000	\$625 plus 5.3% of excess over \$20,000	\$625 plus 4.9% of excess over \$20,000

<b>Example of Savings</b>				
Annual Salary \$22,000				
	Taxable Year beginning in 2005	Taxable Year beginning in 2006	Taxable Year beginning on or after 2007	
Existing Rates	\$731	\$731	\$723	
Proposed Rates	\$674	\$674	\$674	
<b>Total Annual Savings</b>	<b>\$57</b>	<b>\$57</b>	<b>\$49</b>	
Annual Salary \$28,000				
	Taxable Year beginning in 2005	Taxable Year beginning in 2006	Taxable Year beginning on or after 2007	
Existing Rates	\$1,049	\$1,049	\$1,017	
Proposed Rates	\$1,008	\$980	\$964	
<b>Total Annual Savings</b>	<b>\$41</b>	<b>\$69</b>	<b>\$53</b>	

No effective date was specified, however, the TRD fiscal impact assumes 90 days after adjournment, applicable for tax years beginning on or after January 1, 2005.

## FISCAL IMPLICATIONS

The total fiscal impact, based on analysis provided by TRD, is -\$2,240.0 to the general fund in FY06. According to their analysis, annual New Mexico income tax obligations of head of household filers totaled approximately \$53 million in tax year 2003. Simulations based on the 2003 return data indicate that tax reductions associated with the proposed measure are likely to total approximately \$2.5 million in tax year 2005 (or approximately \$2.2 million for FY05), \$1.98 million in tax year 2006 (or approximately \$2.2 million in FY06) and \$1.7 million in tax year 2007 (or approximately \$1.8 million in FY07). Note FY06 is made up of proceeds from one half of tax year 2005 and one half of tax year 2006. TRD notes that tax benefits of the proposed measure would decrease as the maximum personal income tax rates were scheduled to fall from 6.0 percent in tax year 2005 to 4.9 percent in tax year 2007.

## ADMINISTRATIVE IMPLICATIONS

TRD believes that the provisions of the bill could be administered with resources currently available to the department.

## OTHER SUBSTANTIVE ISSUES

According to TRD, the proposal would benefit approximately 121,500 individuals. The average benefit per return would be approximately \$38. Treating single heads of household in the same way as married couples would address equity (fairness) concerns.

TRD notes that, on average, incomes of individuals filing head of household returns are substantially below those who file married joint. In tax year 2003, approximately 143,000 taxpayers filed head of household returns. 52,000 head-of-household filers (about one-third) reported taxable income in excess of \$7,000. In contrast, of the approximately 320,000 joint returns filed for 2003, roughly 227,800, or 70 percent, reported taxable income in excess of \$7,000.

**OPJ/lg**