



**Senate Bill 24/CS/SFL/aHTRC/aHAFC – Page 2**

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amended Senate Bill substitute for Senate Bill 24 to change the total rebate amount from \$55.8 million to \$87.6 million. The credit would be as follows.

For married taxpayers filing jointly:

AGI	Taxpayer Credit	Dependent Credit (each)
Under \$60,000	\$180	\$36
\$60,000 - \$70,000	\$120	\$24
\$70,000 and over	\$0	\$0

Source: Taxation and Revenue Department

For taxpayers filing as single, head of household, married filing separately or as a surviving spouse:

AGI	Taxpayer Credit (each)	Dependent Credit (each)
Under \$60,000	\$90	\$36
\$60,000 - \$70,000	\$0	\$0
\$70,000 and over	\$0	\$0

Source: Taxation and Revenue Department

Synopsis of SFL Substitute

The Senate Floor substitute for Senate Bill 24, the Refundable Personal Income Tax Credit, will replace the amount of rebate from \$120.5 million to \$55.8 million.

The credit would be as follows:

AGI	Taxpayer Credit (each)	Dependent Credit (each)
Under \$30,000	\$50	\$50
\$30,000 - \$50,000	\$40	\$40
\$50,000 - \$70,000	\$25	\$25
\$70,000 and over	\$0	\$0

Source: Taxation and Revenue Department

The bill includes an appropriation of one million dollars from the General Fund to the Taxation and Revenue Department to administer this credit.

Synopsis of Original Bill

The bill provides a refundable personal income tax credit for the 2007 taxable year. A taxpayer who files a New Mexico Personal Income Tax Return for the 2007 taxable year, is a resident of New Mexico, is not a trust, estate, or dependent of another taxpayer, and is not an inmate of a public institution for more than six months during the 2007 taxable year would be eligible for the credit. The credit would be issued as a refund to taxpayers who had already paid any 2007 liability. For taxpayers with an outstanding 2007 liability, the credit would be given as a reduction in the liability.

**FISCAL IMPACT**

The amended SB 24/CS is expected to reduce nonrecurring general fund revenue by \$87.6

million. There is an additional appropriation to TRD for \$750 thousand from the general fund to process and administer the credit. Approximately 20 percent of all tax filers—those with adjusted gross income above \$70 thousand per year for married joint filers and above \$60,000 for single, head of household filers—will not receive a credit.

**Distribution of the Cost of Living Personal Income Tax Credit**

AGI	Number of Joint Returns (000)	Number of Single/HOH Returns (000)	Number of Returns TOTAL (000)	Total Benefits		Average Benefit (\$)
				Amount (\$ millions)	Percent of Total	
Under \$10,000	19.5	136.9	156.4	\$18.3	20.8%	\$117
\$10,000 - \$20,000	27.1	116.3	143.4	\$19.3	22.0%	\$135
\$20,000 - \$30,000	31.3	80.9	112.2	\$16.4	18.7%	\$146
\$30,000 - \$40,000	29.6	54.4	84.0	\$12.5	14.3%	\$149
\$40,000 - \$50,000	27.4	33.2	60.6	\$9.6	11.0%	\$158
\$50,000 - \$60,000	26.3	20.7	47.0	\$7.9	9.1%	\$169
\$60,000 - \$70,000	24.7	12.8	37.5	\$3.6	4.1%	\$96
<b>Subtotal</b>	<b>185.9</b>	<b>455.2</b>	<b>641.1</b>	<b>\$87.6</b>	<b>100.0%</b>	<b>\$137</b>
\$70,000 and over	118.0	27.4	145.3	\$0.0	0.0%	\$0
<b>Total</b>	<b>303.9</b>	<b>482.6</b>	<b>786.5</b>	<b>\$87.6</b>	<b>100.0%</b>	<b>\$111</b>

Italicized items are for married taxpayers filing jointly only

August 18, 2008

Source: Taxation and Revenue Department

**SIGNIFICANT ISSUES**

According to TRD, the new refundable personal income tax credit for 2007 will not be taxable directly to taxpayers. However, those taxpayers who itemize their deductions for income tax purposes and who receive a rebate due to the credit will need to follow the standard federal income tax rule that requires a refund of an itemized tax to be included in income the year the refund is received.

This rebate is similar in form to the tax rebate approved in 2005 at the 2005 special session. Only the value of the credit has changed. That credit was designed to help New Mexicans cope with high gasoline and heating prices with the surge in energy prices following the Katrina and Rita hurricanes in the Gulf of Mexico. Now, there are many indications that the economy is slowing down and the national economy is either in recession or very near to it. Combined with the crash in the housing markets, high gasoline prices, and declines in manufacturing employment, the economic conditions are such that consumers may ratchet back their expenditures and have difficulty paying bills.

The credit will be funded by general fund reserves. The latest consensus revenue estimate shows that reserves are sufficient for the credit but that there will be much less available for nonrecurring uses in the 2009 session.

## **PERFORMANCE IMPLICATIONS**

In 2005, TRD was able to process the rebates in a timely fashion and most tax filers had rebate checks prior to the December Holidays.

## **ADMINISTRATIVE IMPLICATIONS**

The Taxation and Revenue Department stated that information systems will need to be modified. Checks will need to be printed and mailed. Phone inquiries concerning rebates will need to be answered. Significant outreach efforts to Native Americans, active members of the military, retirees, and low-income residents, who might not have filed a 2007 New Mexico income tax return, will need to be undertaken. A notice in English and Spanish describing tax rebates and credits and HSD programs for low- and middle-income taxpayers will be inserted in all rebate checks. Also, to simplify filing for individuals who would otherwise not file a 2007 New Mexico income tax return, TRD will create a highlighted PIT-1 form, which will be the same as the current form but with the necessary entries that need to be completed for the rebate (name, address, SSNs, residency, dependents, filing status, AGI, and signatures) highlighted.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

SB 1 and SB 16 are similar to the amended SB 24/CS but would have a fiscal impact of \$55.8 million and \$62.8 million respectively and have an appropriation to TRD for \$1 million.

BLG/svb:mt