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FISCAL IMPACT REPORT

ORIGINAL DATE 01/30/12
 LAST UPDATED 02/03/12 **HB** _____

SPONSOR Griego, E.

SHORT TITLE Higher Income Level Surtax **SB** 152

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY12	FY13	FY14		
	\$32,750.0	\$64,750.0	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of Bill

1. This bill proposes a new income tax surtax at a rate of 3.3% on taxable income in excess of:
2. \$375,000 for married individuals filing separate returns;
3. \$187,500 for heads of household, surviving spouses and married individuals filing joint returns; or
4. \$250,000 for single individuals and for estates and trusts.

Effective Date: Not specified; 90 days following adjournment (May 16, 2012); Applicable to tax years beginning on or after January 1, 2013.

FISCAL IMPLICATIONS

TRD reports that a simulation model was used to estimate each calendar year's tax liability at 2009 income levels (the most recent year for which complete tax return data is available). Personal income growth as estimated by the consensus revenue estimating group was used to forecast the income tax base. Calendar year liabilities were converted to fiscal years by applying historical payment patterns. The surtax was assumed to be on taxable income in excess of \$187,500 for married individuals filing separate returns and \$375,000 for heads of household, surviving spouses and married individuals filing joint returns. That is, the analysis was conducted assuming that the technical issue identified below will be rectified by amendment.

SIGNIFICANT ISSUES

The proposal would impose a greater personal income tax burden on taxpayers with higher income, which is sometimes advocated on the grounds that these individuals have a greater ability to pay and the tax should be used to re-distribute income. The counter-argument to this is that states should not attempt to re-distribute income because of the potential for negative impacts on their economic development. Raising income tax rates would reduce the after-tax return on labor and capital invested in the New Mexico economy, thus reducing the competitiveness of New Mexico's economy by discouraging business location and investment as well as employment and work effort.

TECHNICAL ISSUES

The bill has inverted the usual relationship between the tax brackets of the taxpayers filing as married filing separately and married filing joint. Using the traditional ratio between these two filing categories, the surtax should be on taxable income in excess of \$187,500 for married individuals filing separate returns and \$375,000 for heads of household, surviving spouses and married individuals filing joint returns.

OTHER SUBSTANTIVE ISSUES

Does the bill meet the Legislative Finance Committee tax policy principles?

- **Adequacy:** Revenue should be adequate to fund needed government services.
- **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity:** Different taxpayers should be treated fairly.
- **Simplicity:** Collection should be simple and easily understood.
- **Accountability:** Preferences should be easy to monitor and evaluate

SS/svb:amm