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F I S C A L I M P A C T R E P O R T

		ORIGINAL DATE	2/1/18		
SPONSOR	Maestas	**LAST UPDATED**		**HB**	288
SHORT TITLE	Income Tax Changes			**SB**	
				ANALYST	Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY18	FY19	FY20	FY21	FY22		
(unknown)					Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
(unknown)				Recurring	TRD Operating

Parenthesis ( ) indicate expenditure decreases

Conflicts with HB4, HB143, HB272, and SB49

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (discussions on analysis approach, but no official response yet received)

SUMMARY

House Bill 288 makes several changes to the Income Tax Act, including changes to the calculation of net income, changes to personal income tax rates and brackets, and modification and repeal of various income tax credits. This bill also makes several clarifying changes to the Income Tax Act.

Beginning in tax year 2019, this bill changes the individual income tax rates to the following:

Filing Status	Income Range	Tax Rate
Married Filing Separate	Not over $25,000	4% of taxable income
	$25,000 to $50,000	$1,000 plus 5% of excess over $25,000

	Over $50,000	$2,250 plus 6% of excess over $50,000

Filing Status	**Income Range**	**Tax Rate**
Head of Household; Surviving Spouses; Married Filing Joint; Single Individuals; Estates and Trusts	Not over $50,000	4% of taxable income
	$50,000 to $100,000	$2,000 plus 5% of excess over $50,000
	Over $100,000	$4,500 plus 6% of excess over $100,000

The effective date of this bill is January 1, 2019.

FISCAL IMPLICATIONS

Analysis from the Taxation and Revenue Department (TRD) is needed to fully understand the impact of this bill. In effect, the bill combines two offsetting provisions: 1) reducing the taxable base by creating a state-level exemption, and 2) increasing the tax rates on high income filers. In discussions, TRD has noted that 50 percent of the state's income tax revenue is generate from the top 10 percent of filers, all of whom will see a tax rate increase. While this will likely more than offset the effect of narrowing the base through the exemption, more analysis by TRD is needed to fully determine potential general fund impact.

This report does not reflect any potential direct or indirect impacts from the 2017 Tax Cuts and Jobs Act (federal tax reform). Analysis is underway by agencies and legislative analysts, but there is a strong chance the 2018 legislative session may end before the full impacts are estimated.

Notably, the bill imposes the same tax rates and brackets on single individuals as those who are married filing jointly. This differs from current statute, which provides lower tax brackets for single individuals and estates and trusts (see Significant Issues below for the current personal income tax rates and brackets).

SIGNIFICANT ISSUES

This bill apparently makes changes to the Income Tax Act in response to recent federal tax reform. However, this bill's changes are effective beginning tax year 2019, while federal tax reform applies to tax year 2018. If the intent of this legislation is to affect TY19, LFC staff recommend postponing changes to personal income taxes until TRD has had sufficient time to determine the impacts of federal tax reform.

Additionally, the provisions of the federal Tax Cuts and Jobs Act expire in 2025; however, the provisions of this bill have no sunset date. Analysis from TRD is needed to determine the effect this will have on general fund revenues and New Mexico taxpayers.

The current PIT rate schedule is as follows:

Filing Status	**Income Range**	**Tax Rate**
Married Filing Separate	Not over $4,000	1.7% of taxable income
	$4,000 to $8,000	$68 plus 3.2% of excess over $4,000

	$8,000 to $12,000	$196 plus 4.7% of excess over $8,000
	Over $12,000	$384 plus 4.9% of excess over $12,000
Head of Household; Surviving Spouse; Married Filing Joint	Not over $8,000	1.7% of taxable income
	$8,000 to $16,000	$136 plus 3.2% of excess over $8,000
	$16,000 to $24,000	$392 plus 4.7% of excess over $16,000
	Over $24,000	$768 plus 4.9% of excess over $24,000
Single Individuals; Estates and Trusts	Not over $5,500	1.7% of taxable income
	$5,500 to $11,000	$93.50 plus 3.2% of excess over $5,500
	$11,000 to $16,000	$269.50 plus 4.7% of excess over $11,000
	Over $16,000	$504.50 plus 4.9% of excess over $16,000

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 4 amends the personal income tax rates and brackets.

House Bill 143 changes the definition of net income in the Income Tax Act to remove the exclusion of state income and local sales taxes included in the taxpayer’s federal itemized deductions from the base income for taxpayers other than estates or trusts. The effect is to allow the state and local tax deductions for state income tax purposes.

House Bill 272 creates new income tax brackets.

Senate Bill 49 makes a variety of tax code changes, including providing for a flat income tax rates of 2.5 percent on taxable income above certain levels and repeals a variety of income tax expenditures.

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

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

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