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FISCAL IMPACT REPORT

 SPONSOR:
 Cisneros
 DATE TYPED:
 2/6/03
 HB

 SHORT TITLE:
 Reduce Income Tax Rates
 SB
 167/aSFl

ANALYST: Smith

<u>REVENUE</u>

	Estimated	Recurring or Non-Rec	Fund Affected		
FY04	FY05	FY06	FY07		
(17,110.0)	(56,909.0)	(151,058.0)	(299,293.0)	Recurring	Rate Cut
<u>(4,176.0)</u>	<u>(10,297.0)</u>	(15,622.0)	<u>(25,844.0)</u>	Recurring	Capital Gains Cut
(21,286.0)	(67,206.0)	(166,680.0)	(325,137.0)	Recurring	Total General Fund

(Parenthesis () Indicate Revenue Decreases)

Duplicates HB167

SOURCES OF INFORMATION

Responses Received From

TRD

SUMMARY

Synopsis of SFI Amendment

The Senate Floor amendments are largely technical in nature. They changes the timeline for the payment of interest on income tax refunds from 75 days to 55 days from the date of the claim. The amendments should have a negligible fiscal impact.

Synopsis of Original Bill

This measure would reduce New Mexico's highest personal income tax rates from their current maximum of 8.2 percent to the following rates:

- In tax year 2003: 7.7%;
- In tax year 2004: 7.0%;
- In tax year 2005: 6.0%; and
- In tax year 2006 and after: 5.0%.

Beginning in tax year 2003, taxpayers would be able to deduct *the greater of* \$1,000 or the following percentage of their net capital gain income:

- In tax year 2003: 10%;
- In tax year 2004: 20%;
- In tax year 2005: 30%; and
- In tax years 2006 and after: 50%.

Significant Issues

TRD has supplied the following rate tables.

Current and Proposed Personal Income Tax Rates

Current	Joint		Single		Sep	arate	Head of Household		
	Taxable I	ncome	Taxable	Income	Taxable	e Income	Taxable Income		
Rate (%)	From	to	From	to	From	n to	From	to	
1.7	0	8,000	0	5,500	() 4,000	0	7,000	
3.2	8,001	16,000	5,501	11,000	4,001	8,000	7,001	14,000	
4.7	16,001	24,000	11,001	16,000	8,001	12,000	14,001	20,000	
6	24,001	40,000	16,001	26,000	12,001	20,000	20,001	33,000	
7.1	40,001	64,000	26,001	42,000	20,001	32,000	33,001	53,000	
7.9	64,001	100,000	42,001	65,000	32,001	50,000	53,001	83,000	
8.2	101,000	& above	65,001	& above	50,001	& above	83,001	& above	

Proposed	Joint		Single		Sepa	rate	Head of Household		
Tax Year 2003	Taxable I	ncome	Taxable I	Taxable Income		Income	Taxable Income		
Rate (%)	From	to	From	to	From	From to		to	
1.7	0	8,000	0	5,500	0	4,000	0	7,000	
3.2	8,001	16,000	5,501	11,000	4,001	8,000	7,001	14,000	
4.7	16,001	24,000	11,001	16,000	8,001	12,000	14,001	20,000	
6	24,001	40,000	16,001	26,000	12,001	20,000	20,001	33,000	
7.1	40,001	64,000	26,001	42,000	20,001	32,000	33,001	53,000	
7.7	64,001	& above	42,001	& above	32,001	& above	53,001	& above	
	l		I		I		1		
7.7	64,001		42,001		32,001	& above	53,001	& above	

Proposed	Joir	nt	Sing	Single		rate	Head of Household		
Tax Year 2004	Taxable I	Income	Taxable I	Income	Taxable	Income	Taxable I	ncome	
Rate (%)	From	to	From	to	From	to	From	to	
1.7	0	8,000	0	5,500	0	4,000	0	7,000	
3.2	8,001	16,000	5,501	11,000	4,001	8,000	7,001	14,000	
4.7	16,001	24,000	11,001	16,000	8,001	12,000	14,001	20,000	
6	24,001	40,000	16,001	26,000	12,001	20,000	20,001	33,000	
7	40,001	& above	26,001	& above	20,001	& above	33,001	& above	
	I		I		I		I		
Proposed	Joir	nt	Sing	le	Sepa	rate	Head of He	ousehold	

Tax Year 2005	Taxable Income		Taxable Income		Taxable Income		Taxable Income		
Rate (%)	From to		From	From to		From to		to	
1.7	0	8,000	0	5,500	0	4,000	0	7,000	
3.2	8,001	16,000	5,501	11,000	4,001	8,000	7,001	14,000	
4.7	16,001	24,000	11,001	16,000	8,001	12,000	14,001	20,000	
6	24,001	& above	16,001	& above	12,001	& above	20,001	& above	
Proposed	posed Joint		Single		Separate		Head of Household		
Tax Year 2006	Taxable	Income	Taxable I	ncome	Taxable	Income	Taxable Income		
Rate (%)	From	to	From	to	From	to	From	to	
1.7	0	8,000	0	5,500	0	4,000	0	7,000	
3.2	8,001	16,000	5,501	11,000	4,001	8,000	7,001	14,000	
4.7	16,001	24,000	11,001	16,000	8,001	12,000	14,001	20,000	
5	24,001	& above	16,001	& above	12,001	& above	20,001	& above	

FISCAL IMPLICATIONS

The impacts of the capital gains deduction are evaluated under the proposed tax rates. If the tax rate changes are not adopted, the impacts of the capital gains provisions compared to present law tax rates would be larger. Further, capital gains realization levels have been suppressed by recent stock market performance. While a "bounce" back to the levels of the late 1990's is not anticipated, it should be noted that realizations are notoriously volatile and difficult to forecast.

OTHER SUBSTANTIVE ISSUES

TRD notes that state income tax payments are deductible for purposes of calculating federal income tax. Thus, because this proposal would reduce state income tax liabilities, it would also reduce these deductions. This reduces the net benefits of the tax reduction for the taxpayer. For example, if a taxpayer is in the 30% tax bracket, the net benefit to the taxpayer of the state tax reduction would be reduced by 30%.

Many tax experts actually admire New Mexico's tax system. A recent <u>Governing</u> article ranked the states –tax system in the top four for adequacy of revenues and in the top ten for fairness to taxpayers. However, New Mexico ranked in the near the bottom for management of the tax system.

If this bill were enacted, New Mexico's top rate would be the 9th lowest in the nation as of 2007.

TRD has provided the following table that shows who reaps the benefit of the income tax cut by income class and filing status.

	Effects of Proposed Tax Reduction by Taxable Income and Filing Status											
	Т	Tax Year 2003			Tax Year 2004		Tax Year 2005		Tax Year 2006			
Filing Status	Present Law Li- ability *	Proposed	Liability	Present Law Li-	Proposed Law Li- ability*	Liability	Present Law Li-	Liabil-	Decrease in Tax Liability *	Law Li-	Pro- posed Law Liabil- ity*	Decrease in Tax Liability *
Married Filing Joint Taxable Income (\$)												

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0 to 8,000	2.0	2.0	(0.0)	2.1	2.1	0.0	2.2	2.2	(0.0)	2.3	2.3	(0.0)
8,001 to 16,000	9.4	9.4	(0.0)	10.0	10.0	0.0	10.7	10.7	(0.0)	11.5	11.5	(0.0)
16,001 to 24,000	18.2	18.2	(0.0)	19.6	19.6	0.0	21.0	21.0	(0.0)	22.6	22.6	(0.0)
24,001 to 40,000	76.2	76.2	(0.0)	81.4	81.4	(0.0)	86.9	86.9	(0.0)	92.9	82.8	(10.2)
40,001 to 64,000	159.2	159.1	(0.0)	169.3	167.9	(1.4)	179.7	167.4	(12.3)	191.2	153.8	(37.4)
64,001 to 100,000	165.9	164.5	(1.4)	175.7	167.7	(8.0)	185.7	159.5	(26.3)	196.7	143.9	(52.8)
100,001 and over	291.7	280.4	(11.3)	306.4	273.5	(32.9)	321.5	250.6	(70.9)	337.8	221.4	(116.4)
Total	722.5	709.8	(12.7)	764.4	722.1	(42.3)	807.8	696.6	(111.2)	855.1	638.4	(216.8)
Single												
Taxable Income (\$)												
0 to 5,500	5.6	5.6	(0.0)	5.9	5.9	0.0	6.3	6.3	0.0	6.7	6.7	-
5,500 to 11,000	19.5	19.5	(0.0)	20.9	20.9	0.0	22.4	22.4	0.0	24.2	24.2	0.0
11,000 to 16,000	27.9	27.9	(0.0)	29.8	29.8	(0.0)	31.8	31.8	(0.0)	34.1	34.1	0.0
16,000 to 26,000	57.1	57.1	(0.0)	60.8	60.8	(0.0)	64.7	60.5	(4.2)	68.9	52.9	(16.0)
26,000 to 42,000	47.2	47.2	0.0	50.0	47.8	(2.2)	52.9	45.9	(7.1)	56.2	41.5	(14.6)
42,000 to 65,000	27.2	26.3	(0.9)	28.7	26.4	(2.2)	30.2	24.6	(5.6)	31.9	22.0	(9.9)
65,000 and over	48.2	46.0	(2.2)	50.5	44.4	(6.1)	52.9	40.4	(12.5)	55.5	35.5	(20.0)
Total	232.7	229.5	(3.2)	246.8	236.1	(10.7)	261.3	231.9	(29.4)	277.4	216.8	(60.7)
			_							_		
Separate			_							_		
Taxable Income (\$)			_							_		
0 to 4,000	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
4,000 to 8,000	0.1	0.1	-	0.1	0.1	-	0.1	0.1	-	0.1	0.1	-
8,000 to 12,000	0.2	0.2	-	0.3	0.3	-	0.3	0.3	-	0.3	0.3	(0.0)
12,000 to 20,000	1.0	1.0	-	1.1	1.1	(0.0)	1.1	1.1	(0.0)	1.2	1.1	(0.1)
20,000 to 32,000	1.8	1.8	-	1.9	1.9	(0.0)	2.0	1.8	(0.1)	2.1	1.7	(0.4)
32,000 to 50,000	1.8	1.7	(0.0)	1.9	1.8	(0.1)	2.0	1.7	(0.3)	2.1	1.5	(0.6)
50,000 and over	6.3	6.0	(0.3)	6.6	5.8	(0.8)	6.9	5.3	(1.6)	7.2	4.6	(2.6)
Total	11.2	10.9	(0.3)	11.8	10.9	(0.9)	12.4	10.4	(2.1)	13.1	9.4	(3.7)
Head of Household												
Taxable Income (\$)				+	+						-	_
0 to 7,000	1.7	1.7	(0.0)	1.8	1.8	0.0	1.9	1.9	(0.0)	2.0	2.0	(0.0)
7,000 to 14,000	4.7	4.7	· · /	5.0	5.0	0.0	5.3	_	()	5.7	5.7	· /
14,000 to 14,000	6.0	4.7 6.0	(0.0)	6.5	6.5	0.0	5.3 7.0	5.3 7.0	(0.0)	7.5	7.5	(0.0)
		-	· · /	6.5 12.3	6.5 12.3	_	-	1	(0.0) 0.0		12.6	
20,000 to 33,000	11.5	11.5 12.3	(0.0)	12.3		(0.0)	13.1	13.1 12.9	-	14.0		(1.4)
33,000 to 53,000 53,000 to 83,000	7.2	7.1	(0.0)	7.6	13.0 7.2	(0.1) (0.3)	13.9 8.0	6.9	(1.0) (1.1)	14.8 8.5	11.9 6.2	(2.8)
		7.1 9.9			9.6	· · ·					7.8	. ,
83,00 and over	10.3		(0.4)	10.8		(1.2)	11.4	8.8	(2.6)	11.9		(4.2)
Total	53.6	53.1	(0.5)	57.0	55.4	(1.6)	60.6	55.8	(4.8)	64.4	53.6	(10.9)

Additionally, TRD has provided analogous tables for the capital gains tax reduction.

Estimated Distributional Impacts of the Capital Gains Proposal For Selected Years:

Tax Year 2003

		Net Capital	Increased	Decreased
Adjusted Gros	s Income	Gains	Deductions	Tax Liability
		(millions)	(millions)	(thousands)
\$0 or Less	\$10,000	\$22.3	\$0.0	\$0.0
\$10,000	\$20,000	\$15.0	\$0.0	\$0.0
\$20,000	\$30,000	\$17.9	\$0.0	\$0.0

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\$30,000	\$50,000	\$45.0	\$0.0	\$0.0
\$50,000	\$75,000	\$70.1	\$0.0	\$0.0
\$75,000	\$100,000	\$70.1	\$1.9	\$129
\$100,000	\$150,000	\$104.6	\$4.9	\$349
\$150,000	\$200,000	\$69.5	\$4.5	\$314
\$200,000	Over	\$541.5	\$48.0	\$3,384
	Total	\$956.1	\$59.3	\$4,176

Tax Year 2006

		Net Capital	Increased	Decreased
Adjusted Gros	ss Income	Gains	Deductions	Tax Liability
		(millions)	(millions)	(thousands)
\$0 or Less	\$10,000	\$28.3	\$10.6	\$159
\$10,000	\$20,000	\$19.1	\$5.3	\$92.3
\$20,000	\$30,000	\$22.8	\$7.2	\$217
\$30,000	\$50,000	\$57.1	\$20.6	\$874
\$50,000	\$75,000	\$89.1	\$35.3	\$1,596
\$75,000	\$100,000	\$89.1	\$38.0	\$1,779
\$100,000	\$150,000	\$132.9	\$59.4	\$2,876
\$150,000	\$200,000	\$88.3	\$41.0	\$1,983
\$200,000	Over	\$688.0	\$336.2	\$16,267
	Total	\$1,214.7	\$553.6	\$25,844

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