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FISCAL IMPACT REPORT

SPONSOR: Aragon	DATE TYPED:	1/29/03	HB	
SHORT TITLE: Reduce Income Tax	Rates		SB	238
		ANAL	YST:	Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected	
FY03	FY04				
	(17,110.0)	(299,300.0)	Recurring	Personal Income Tax rate cut	
	(4,176.0)	(10,297.0)	Recurring	Capital Gains Deduction	
	(21,286.0)	(309,597.0)	Recurring	Total General Fund	

(Parenthesis () Indicate Revenue Decreases)

Conflicts with HB54, HB56, HB167, SB167

SOURCES OF INFORMATION

Responses Received From

TRD

SUMMARY

Synopsis of Bill

Senate Bill 238 reduces New Mexico's highest personal income tax rate brackets and modifies the income amounts at which various rates would apply.

In tax year 2003, the top tax rate would be reduced to 7.7% but no changes would be made to income brackets. In tax year 2004 and thereafter, the top rate would be reduced to 5.5%, and the income brackets would be modified.

Significant Issues

TRD has provided the following rate table.

Current and Proposed Personal Income Tax Rates

Current	Join	nt	Sing	le	Sepa	rate	Head of H	Iousehold	
	Taxable l	Income	Taxable I	ncome	Taxable 1	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	
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	Join	nt	Sing	le	Separ	rate	Head of H	Iousehold	
Tax Year 2003	Taxable l	Income	Taxable I	ncome	Taxable 1	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	
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	
	1	i		i		i			
Proposed	Join		Sing		Sepai		Head of H		
Tax Year 2004	Taxable I	Income	Taxable I	ncome		Taxable Income		Income	
Rate (%)	From	to	From	to	From	to	From	to	
1.7	0	15,000	0	10,000	0	7,500	0	12,500	
3.2	15,001	24,000	10,001	16,000	7,501	12,000	12,501	20,000	
4.7	24,001	45,000	16,001	30,000	12,001	22,500	20,001	37,500	
5.5	45,001	& above	30,001	& above	22,501	& above	37,501	& 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.

Senate Bill 238 -- Page 3

OTHER SUBSTANTIVE ISSUES

TRD has provided a table showing the benefits to taxpayer by income and filing status.

Table 2: Effects of Proposed Tax Reduction by Taxable Income and Filing Status						
	Tax Year 2003		Tax Year 2004			
Taxable Income and	Present Law	Proposed Law	Change in	Present Law	Proposed Law	Change in
Filing Status	Liability*	Liability*	Liability*	Liability*	Liability*	Liability*
Married Filing Joint						
0 to 8,000	2.0	2.0		2.1	2.1	
8,001 to 16,000	9.4	9.4		10.0	7.5	(2.5)
16,001 to 24,000	18.2	18.2		19.6	14.0	(5.6)
24.001 to 40.000	76.2	76.2		81.4	60.3	(21.2)
40,001 to 64,000	159.2	159.1		169.3	126.0	(43.2)
64,001 to 100,000	165.9	164.5	(1.4)	175.7	128.4	(47.3)
100,001 and over	291.7	280.4	(11.3)	306.4	212.7	(93.7)
Total	722.5	709.8	(12.7)	764.4	551.0	(213.5)
Single						
0 to 5,500	5.6	5.6		5.9	5.3	(0.6)
5,500 to 11,000	19.5	19.5		20.9	15.2	(5.7)
11,000 to 16,000	27.9	27.9		29.8	22.3	(7.6)
16,000 to 16,000	57.1	57.1		60.8	45.2	(15.6)
26,000 to 42,000	47.2	47.2		50.0	36.7	
42,000 to 65,000	27.2	26.3	(0.9)	28.7	20.4	(13.3)
65,000 and over	48.2	46.0		50.5	34.7	. ,
	232.7	229.5	(2.2)	246.8	179.8	(15.9)
Total	232.1	229.5	(3.2)	240.8	1/9.8	(66.9)
Separate						
0 to 4,000	0.0	0.0	-	0.0	0.0	
4,000 to 8,000	0.1	0.1	-	0.1	0.1	
8,000 to 12,000	0.2	0.2	-	0.3	0.2	(0.1)
12,000 to 20,000	1.0	1.0	-	1.1	0.8	(0.3)
20,000 to 32,000	1.8	1.8	-	1.9	1.4	(0.5)
32,000 to 50,000	1.8	1.7	(0.0)	1.9	1.4	(0.5)
50,000 and over	6.3	6.0	(0.3)	6.6	4.5	(2.1)
Total	11.2	10.9	(0.3)	11.8	8.4	(3.4)
Head of Household						
0 to 7,000	1.7	1.7		1.8	1.8	
7,000 to 14,000	4.7	4.7		5.0	3.8	(1.2)
14,000 to 20,000	6.0	6.0		6.5	4.7	(1.7)
20,000 to 33,000	11.5	11.5		12.3	9.2	(3.1)
33,000 to 53,000	12.3	12.3		13.1	9.8	(3.3)
53,000 to 83,000	7.2	7.1	(0.1)	7.6	5.6	(2.0)
83,00 and over	10.3	9.9	(0.4)	10.8	7.5	(3.3)
Total	53.6	53.1	(0.5)	57.0	42.4	(14.6)
*\$Millions						

Additionally, TRD has provided a table showing the benefits to taxpayers of the capital gains reduction.

Estimated Distributional Impacts of the Capital Gains Proposal For Selected Years: Tax Year 2003

		Net Capital	Increased De-	Decreased
Adjusted Gros	s Income	Gains	ductions	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
\$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 Tax
Adjusted Gros	ss Income	Gains	Deductions	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