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## FISCAL IMPACT REPORT

SPONSOR: Aragon
DATE TYPED: 1/29/03 HB

SHORT TITLE: Reduce Income Tax Rates
SB 238
$\qquad$
REVENUE

| Estimated Revenue |  | Subsequent Years Impact | Recurring or Non-Rec | FundAffected |
| :---: | :---: | :---: | :---: | :---: |
| 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 | Joint <br> Taxable Income |  | Single <br> Taxable Income |  | Separate <br> Taxable Income |  | Head of Household <br> Taxable Income |  |
| :---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Rate (\%) | From | to | From | to | From | to | From |  |


| Proposed <br> Tax Year 2003 <br> Rate (\%) | Joint <br> Taxable Income |  | Single <br> Taxable Income |  | Separate <br> Taxable Income <br> From |  | Head of Household Taxable Income From |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 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 |


| Proposed Tax Year 2004 | Joint <br> Taxable Income |  | Single <br> Taxable Income |  | Separate <br> Taxable Income |  | Head of Household Taxable 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 nt anticipated, it should be noted that realizations are notoriously volatile and difficult to forecast.

## 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 Filing Status | $\begin{gathered} \hline \text { Present Law } \\ \text { Liability* } \\ \hline \end{gathered}$ | Proposed Law Liability* | Change in Liability* | $\begin{gathered} \hline \text { Present Law } \\ \text { Liability* } \\ \hline \end{gathered}$ | $\begin{gathered} \text { Proposed Law } \\ \text { Liability* } \end{gathered}$ | Change in 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 26,000 | 57.1 | 57.1 |  | 60.8 | 45.2 | (15.6) |
| 26,000 to 42,000 | 47.2 | 47.2 |  | 50.0 | 36.7 | (13.3) |
| 42,000 to 65,000 | 27.2 | 26.3 | (0.9) | 28.7 | 20.4 | (8.3) |
| 65,000 and over | 48.2 | 46.0 | (2.2) | 50.5 | 34.7 | (15.9) |
| Total | 232.7 | 229.5 | (3.2) | 246.8 | 179.8 | (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 gins reduction.

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

| Adjusted Gross Income |  | Net Capital <br> Gains | Increased De- <br> ductions | Decreased <br> Tax Liability <br> (millions) |
| :--- | :--- | ---: | ---: | ---: |
| (millions) |  |  |  |  |
| $\$ 0$ 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

| Adjusted Gross Income |  | Net Capital <br> Gains | Increased <br> Deductions <br> (millions) | Decreased Tax <br> Liability |
| :--- | :--- | ---: | ---: | ---: |
| (thousands) |  |  |  |  |
| $\$ 0$ or Less | $\$ 10,000$ | (millions) | $\$ 28.3$ | $\$ 10.6$ |

SS/njw

