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FISCAL IMPACT REPORT

ORIGINAL DATE 2/26/07

SPONSOR Sandoval LAST UPDATED _____ HB 1254

SHORT TITLE Low and Middle Income Taxpayer Exemptions SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(19,100.0)	(19,100.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 1254 expands the income thresholds for the exemption for low- and middle-income taxpayers.

	Married/Head of Household		Single		Married Filing Separately	
	Begin Phase- out	Max Income	Begin Phase-out	Max Income	Begin Phase- out	Max Income
Current Law	\$ 24,000	\$ 40,667	\$ 16,000	\$ 27,110	\$ 12,000	\$ 20,333
HB1254	\$ 36,000	\$ 61,000	\$ 24,000	\$ 40,667	\$ 18,000	\$ 30,500

The exemption, \$2,500 per claimed exemption, remains the same and phases-out at a rate of 20 percent for each additional dollar for married filing separately, 15 percent for singles and 10 percent for married filing jointly and head of household filers.

The exemption would be effective for tax years 2007 and beyond.

FISCAL IMPLICATIONS

TRD estimates the fiscal impact to be \$19.1 million in FY08:

Fiscal impacts were estimated using information from state income tax returns. Increased exemptions will be claimed on an estimated 236 thousand tax returns filed by New Mexico residents, claiming \$18.5 million in tax savings for an average savings per return of \$78. Non-resident taxpayers will claim an estimated \$700 thousand in tax savings. Total tax savings due to the provision should be stable from year to year because the amount of the exemption and the income thresholds are not indexed for inflation. This means that as taxpayers’ incomes grow over time they will become eligible for a smaller exemption amount. This effect will offset the increase in the total population eligible for the exemptions.

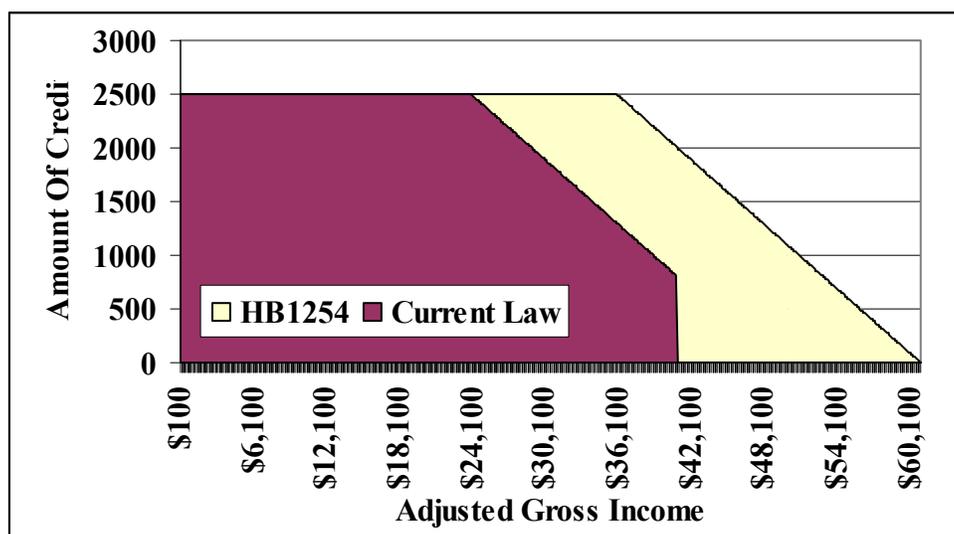
SIGNIFICANT ISSUES

The average tax relief per return is \$78 as shown in the table below:

	Married Joint	Single	Head of Household	Married Separate	All Returns
Average Tax Relief	\$118	\$43	\$78	\$57	\$78

Source: TRD

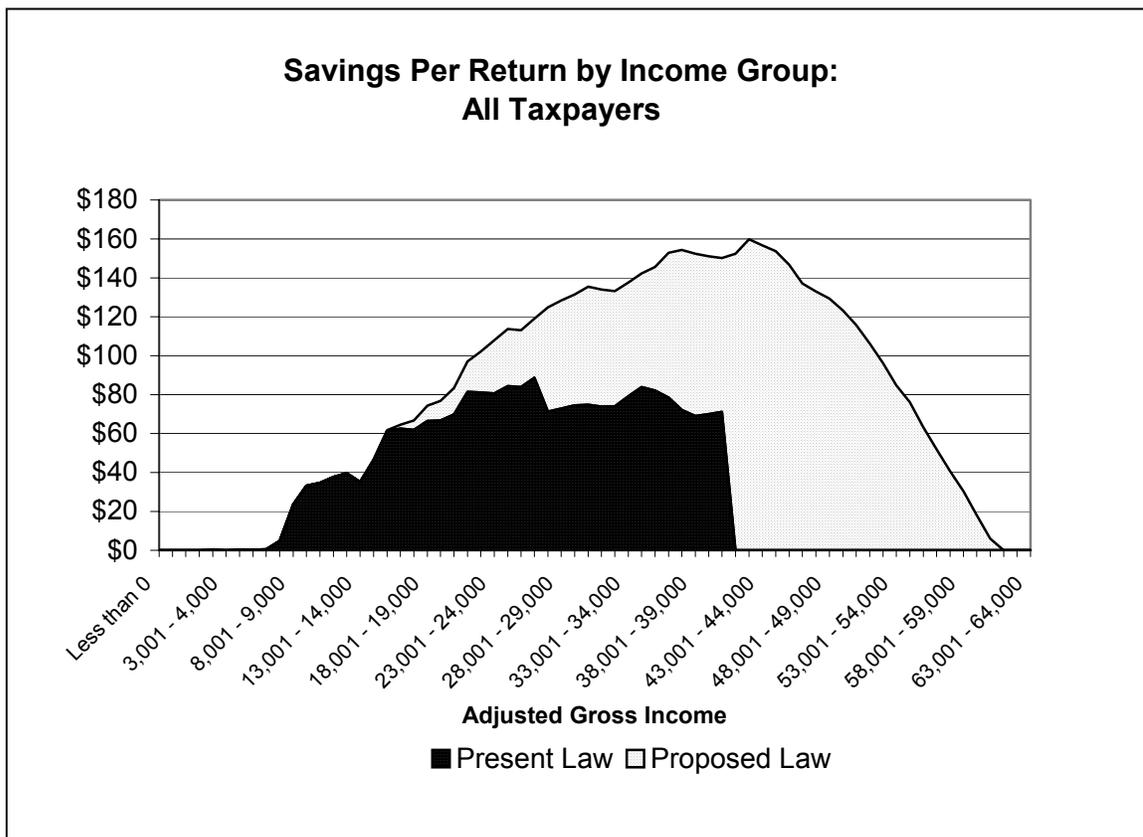
The beneficiaries of the expansion of the thresholds are those taxpayers who are above the current thresholds. For example, a head of household with one child and \$30,000 in adjusted gross income would deduct \$5,000 from adjusted gross income rather than \$3,800 resulting in about \$60 tax savings. As TRD points out below, the phase out fixes a cliff that was in current law: under the formula for a married filing jointly taxpayer, if the taxpayer has income of \$41,000, they should receive an \$800 exemption but the law limits the exemption to those with \$40,667 in income and so this taxpayer would not receive a deduction. The figure below demonstrates the cliff for married filing jointly and heads of household.



OTHER SUBSTANTIVE ISSUES

TRD:

The following figure displays tax savings per return as a function of Adjusted Gross Income (“AGI”) for all taxpayers under the present law personal exemption and with the proposed changes in House Bill 1254. As the figure shows, the present law benefits are subject to a “cliff” because benefits are truncated by the limit on AGI before the formula reduces the benefit to zero. For households eligible for benefits under present law, the additional benefits due to House Bill 1254 are shown in the figure as the areas above their present benefit, i.e. the height of the “Proposed Law” line represents total combined benefits for these households, not the incremental benefits due to House Bill 1254.



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