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FISCAL IMPACT REPORT

SPONSOR	<u>Jennings/Ingle</u>	ORIGINAL DATE	LAST UPDATED	<u>8/17/08</u>	HB	
	Refundable Personal Income Tax Credit for 2007					
SHORT TITLE	<u>Taxable Year</u>				SB	<u>16</u>
					ANALYST	<u>Gutierrez</u>

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
\$1,000.0		Non-recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
(\$62,836.0)			Non-Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to SB 1 and SB 24

SOURCES OF INFORMATION

LFC Files

Taxation and Revenue Department (TRD)

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

The bill provides a refundable personal income tax credit for the 2007 taxable year. A taxpayer who files a New Mexico Personal Income Tax Return for the 2007 taxable year, is a full-year or first-year resident of New Mexico, is not a trust, estate, or dependent of another taxpayer, and was not an inmate of a public institution for more than six months during the 2007 taxable year would be eligible for the credit. The credit would be issued as a refund to taxpayers who had

already paid any 2007 liability. For taxpayers with an outstanding 2007 liability, the credit would be given as a reduction in the liability.

The credit would be as follows:

AGI	Taxpayer Credit (each)	Dependent Credit (each)
Under \$40,000	\$50	\$50
\$40,000 - \$60,000	\$40	\$40
\$60,000 - \$80,000	\$35	\$35
\$80,000 and over	\$0	\$0

Source: Taxation and Revenue Department

According to TRD, the number of eligible taxpayers and dependants for each Adjusted Gross Income (AGI) category was estimated from 2006 New Mexico income tax return data. These numbers were then adjusted to account for growth in the number of returns between 2006 and 2007, and for additional filers in 2007 who would not have filed without the rebate. The credit amounts per AGI category were then used to calculate the revenue impact.

The bill includes an appropriation of one million dollars from the General Fund to the Taxation and Revenue Department to administer this credit.

FISCAL IMPACT

The total estimated cost in FY2009 is \$62.8 million. TRD would incur an additional \$1 million of administrative costs for printing, postage, mailing, processing and systems changes.

SIGNIFICANT ISSUES

Eighty-five percent of the rebate goes to taxpayers making less than \$80,000. The distributional impact of the cost of living tax credit is shown in the following table.

Distribution of the Cost of Living Personal Income Tax Credit

AGI	Number of Returns (000)	Total Benefits		Average Benefit (\$)
		Amount (\$ millions)	Percent of Total	
Under \$10,000	156.4	\$12.2	19.4%	\$78
\$10,000 - \$20,000	143.4	\$14.0	22.3%	\$98
\$20,000 - \$30,000	112.2	\$12.0	19.1%	\$107
\$30,000 - \$40,000	84.0	\$8.9	14.1%	\$106
\$40,000 - \$50,000	60.6	\$5.4	8.6%	\$89
\$50,000 - \$60,000	47.0	\$4.4	7.0%	\$94
\$60,000 - \$70,000	37.5	\$3.3	5.2%	\$87
\$70,000 - \$80,000	30.0	\$2.7	4.3%	\$90
Subtotal	671.2	\$62.8	100.0%	\$94
\$80,000 and over	115.3	\$0.0	0.0%	\$0
Total	786.5	\$62.8	100.0%	\$80

Source: Taxation and Revenue Department

The new refundable personal income tax credit for 2007 will not be taxable directly to taxpayers. However, those taxpayers who itemize their deductions for income tax purposes and who receive a rebate due to the credit will need to follow the standard federal income tax rule that requires a refund of an itemized tax to be included in income the year the refund is received.

ADMINISTRATIVE IMPLICATIONS

Information systems will need to be modified. Checks will need to be printed and mailed. Phone inquiries concerning rebates will need to be answered. Significant outreach efforts to Native Americans, active members of the military, retirees, and low-income residents, who might not have filed a 2007 New Mexico income tax return, will need to be undertaken. A notice in English and Spanish describing tax rebates and credits and HSD programs for low- and middle-income taxpayers will be inserted in all rebate checks. Also, to simplify filing for individuals who would otherwise not file a 2007 New Mexico income tax return, TRD will create a highlighted PIT-1 form, which will be the same as the current form but with the necessary entries that need to be completed for the rebate (name, address, SSNs, residency, dependents, filing status, AGI, and signatures) highlighted.

BLG/mt