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FISCAL IMPACT REPORT

SPONSOR Chavez, D. **ORIGINAL DATE** 02/02/11
LAST UPDATED _____ **HB** 119

SHORT TITLE Income Tax Exemption for People over 65 **SB** _____

ANALYST Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	(\$40,000.0)	(\$102,000.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Duplicates, Relates to, Conflicts with, Companion to

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department

SUMMARY

House Bill 119 exempts individuals 65 years of age and older from the New Mexico personal income tax if their adjusted gross income for federal income tax purposes is \$70,000 or less. It would be applicable to tax years beginning January 1, 2012.

FISCAL IMPLICATIONS

TRD:

2008 New Mexico Personal Income Tax data was used to estimate the tax paid by individuals sixty-five years of age or older whose adjusted gross income for federal income tax purposes is seventy thousand dollars or less. Approximately 110,000 returns were filed with either the primary taxpayer or the spouse sixty-five years of age or older or blind whose adjusted gross income is seventy thousand dollars or less. The tax paid on these returns was approximately \$106 million.

House Bill 119 may have some feedback effects on other general fund revenues because it will make New Mexico more attractive to retirees. The movement of people into the state in

response to this incentive will not happen immediately, though, and we cannot estimate with any certainty the extent to which population movement will occur. Our best estimate, then, is the loss in revenue which will occur immediately.

SIGNIFICANT ISSUES

TRD:

The proposal raises serious concerns about the adequacy and equity of state revenues. It appears to be premised on the goal of eliminating income tax for a large segment of the population. This implicitly shifts the burden of tax to other households. Since the proposed exemption would apply to many households with income greater than the average New Mexico household, it implies a sharp narrowing of the income tax base. Under present law, almost 60 per cent of this tax is paid by the top 9 percent of households. The proposal would narrow that tax base significantly.

ADMINISTRATIVE IMPLICATIONS

TRD:

This bill overlaps present law Section 7-2-5.2 NMSA 1978 which provides an exemption up to \$8,000, scaled to income, for persons over the age of 65 or blind persons with adjusted gross incomes not exceeding \$25,000. Section 7-2-5.2 could be amended to eliminate the scaled exemption for persons of age 65 or older, which becomes unnecessary by enactment of the broader tax exemption of this proposal. The bill should address how the \$70,000 threshold varies with the filing status. The usual procedure in the income tax act is to set income thresholds for single filers at about 70 percent of those for married joint filers. It also does not require that both taxpayers be 65 year of age or over if the taxpayer is married filing jointly.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If not enacted the targeted group, individuals 65 years of age and older who have income of less than \$70,000/year will continue paying Personal Income Tax.

JAG/bym