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FISCAL IMPACT REPORT

SPONSOR Strickler ORIGINAL DATE 02/10/11
 LAST UPDATED _____ HB 200
 SHORT TITLE Reducing Corporate Income Tax Rates SB _____
 ANALYST Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
\$0.	(\$12,340)	(\$46,080)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department

SUMMARY

House Bill 200 reduces the corporate income tax rates on a gradual basis from current rates to a standard 4.8% on net income.

This bill reduces the corporate income tax rates as follows:

- 1) For taxable years beginning in calendar 2012 net income:
 - below \$500,000 - 4.8% of net income;
 - over \$500,000 - \$24,000 plus 6.7% of excess over \$500,000;
- 2) For taxable years beginning in calendar 2013 net income:
 - below \$500,000 - 4.8% of net income;
 - over \$500,000 - \$24,000 plus 5.8% of excess over \$500,000; and
- 3) For taxable years beginning on or after January 1, 2014, the tax shall be 4.8% of net income.

Current statute would apply to calendar year 2011:

Net income below \$500,000 - 4.8% of net income;
 Net income over \$500,000
 but not over \$1,000,000 - \$24,000 plus 6.4% of the excess over \$500,000;
 Net income over \$1,000,000 - \$56,000 plus 7.6% of excess over \$1,000,000.

FISCAL IMPLICATIONS

TRD:

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2011	FY2012	FY2013	FY2014	FY2015		
0	(12,340)	(46,080)	(88,950)	(120,540)	R	General Fund

* In thousands of dollars. Parentheses () indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

2008 New Mexico corporate income tax data was used to estimate the corporate income tax revenue based on current and proposed law. December 2010 consensus corporate income tax revenue forecast numbers were used to adjust the current and proposed law revenues for future years. The difference between current and proposed law revenue for each tax year was used to calculate the fiscal impact for each fiscal year.

SIGNIFICANT ISSUES

TRD:

Reducing corporate income tax rates would make New Mexico more attractive for investment and could thereby attract more businesses (new and existing) to locate in New Mexico.

State corporate income taxes, including New Mexico’s, generally conform to the basic design and provisions of the federal corporate income tax. The basic design of the federal corporate income tax is that it operates as a separate tax from the federal individual income tax, meaning that corporate income is taxed first at the corporate level as it is earned, and again at the individual shareholder level when (after-tax) corporate income is distributed to shareholders as dividends or shareholders realize capital gains on the sale of the corporation’s stock (the value of which reflects income retained by the corporation). Significant economic distortions arise from this “double tax” design. This bill reduces economic distortions due the current corporate income tax design by lowering the rates.

Another good tax policy reason for lowering the corporate income tax rate is that the top individual income tax rate is 4.9 percent. Reducing the corporate income tax rate to make it more consistent with the top individual rate would reduce the incentive for companies to organize themselves as limited liability companies, which are not subject to the corporate income tax.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Related to SB 6 and SB 7.

JAG/mew