F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	02/24/11		
SPONSOR	Ezzell	**LAST UPDATED**	03/11/11	**HB**	470/aHTRC
SHORT TITLE	Underpayment of Estimated Tax Penalty Changes			**SB**	
				ANALYST	Graeser

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	**FY12**	**FY13**		
	<($50.0)	<($50.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Note: there will be small number of taxpayers who would owe underpayment penalties with a $500 threshold who would not owe penalty with a $1,000 threshold. In general, the penalty is applied against taxpayers who make no estimated payments.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$0.0	$0.0	$0.0	NA	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee Amendment makes the provisions of the act effective for taxable years beginning on or after January 1, 2012.

Synopsis of Original Bill

House Bill 470 amends Section 7-2-12.2 NMSA 1978 to increase the threshold at which the penalty for underpayment of estimated tax is applied from five hundred dollars to one thousand dollars.

FISCAL IMPLICATIONS

TRD notes that the proposed changes would impact the timing, but not significantly affect the amount of personal income tax payments. The proposed personal income tax change would eliminate underpayment penalties by relatively modest amounts.

The penalty and interest are 2% per month (maximum 10%) and 1.25% per month respectively. Thus the penalty and interest relief on the $500 change in threshold would be about $95 per taxpayer affected by this change. The table assumes that fewer than 500 taxpayers would be in position to benefit from the proposed change.

SIGNIFICANT ISSUES

The IRS website discusses this underpayment of estimated tax penalty:

Topic 306 - Penalty for Underpayment of Estimated Tax
The United States income tax is a pay-as-you-go tax, which means that tax must be paid as you earn or receive your income during the year. You can either do this through withholding or by making estimated tax payments. If you do not pay your tax through withholding, or do not pay enough tax that way, you might also have to pay estimated taxes. If you did not pay enough tax throughout the year, either through withholding or by making estimated tax payments, you may have to pay a penalty for underpayment of estimated tax. Generally, most taxpayers will avoid this penalty if they owe less than $1,000 in tax after subtracting their withholdings and credits…
This bill conforms the threshold for federal purposes with the threshold for state purposes. However, state income taxes are around 25% of federal taxes on the same income, so there is no direct basis for asserting that the state threshold should be the same as the federal threshold.

TRD notes that the increased threshold for the imposition of penalty would not apply with respect to assessments or returns filed prior to July 1, 2011. Unintended consequences could arise if taxpayers who file late returns or who file amended returns after July 1, 2011 for the 2010 tax year are able to benefit from the increased threshold, while taxpayers who timely file returns do not reap the same benefit. Such consequences could possibly be avoided by adding an applicability section to the bill, in order to clarify to which tax years the increased threshold shall apply.

ADMINISTRATIVE IMPLICATIONS

TRD note that "… the proposed changes in personal income tax payment requirements would reduce the costs of administration by reducing the number of enforcement actions taken by the Department. The resulting impacts on penalty collections and estimated payment timeliness would be relatively modest."

LG/svb