

LFC Requester: _____

**AGENCY BILL ANALYSIS
2024 REGULAR SESSION**

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO:

Analysis.nmlegis.gov

{Analysis must be uploaded as a PDF}

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:

Original Amendment
Correction Substitute

Date 2.6.2024

Bill No: HB 216

Sponsor: J. Harper Agency Name and Code: DFA-Local Government Division: 341
Short Title: FLAT CORPORATE INCOME TAX RATE Person Writing: Noel Martinez
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		
	\$2,454	\$2,650	R	CIT

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

House Bill 216 (HB 216) amends the corporate income tax rates by taxable income in Section 7-2A-5 NMSA 1978 (being Laws 1981, Chapter 37, Section 38, as amended). HB 216 proposes the implementation of a flat corporate income tax rate of 5.9 percent on taxable income. The proposed legislation only amends the tax rates for taxable incomes less than \$500 thousand from 4.8% to 5.9%.

Section 2 of HB 216 proposes some technical changes to the way business income is distributed (known as single-sales factor). The proposed changes suggest using a ratio of sales in New Mexico over total sales in all states, instead of the current three-factor formula that apportions multi-state income as outlined in the current statute. Section 2 of HB 216 has an effective date of January 1, 2025.

FISCAL IMPLICATIONS

The starting point for this analysis was the corporate income tax by income bracket table in the 2023 Tax Expenditure Report. The table provides the tax paid by income bracket and by industry. The next step was to calculate an industry's taxable income. The proposed corporate income tax rate of 5.9 percent was applied to each industry's taxable income.

The proposed changes in HB 216 would lead to an increase in the revenue generated from corporate income tax by around \$2.454 million over the Consensus Revenue Estimating Group's December 2023 estimate for fiscal year 2025. For fiscal year 2026, the taxable income per industry was grown by the nation's corporate profits before taxes growth rate to calculate a new taxable income. Next, the proposed tax rates were applied to an industry's new taxable income.

The corporate income tax revenue is estimated to increase by \$2.650 million above the Consensus Revenue Estimating Group's December 2023 gross corporate income tax estimate.

SIGNIFICANT ISSUES

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB 216 relates to SB 119 and the current 2024 regular session tax package HB 252.

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS