TAX RELIEF LEGISLATION REDUCES THE BURDEN OF NEW MEXICO’S PERSONAL INCOME TAX.

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New Mexicans continue to benefit from a series of tax relief measures which began in calendar year 1972, and which have been increased in each succeeding year. The cumulative effect of these tax breaks has been a substantial reduction in revenue from the state personal income tax. Both the dollar amount and overall percentage of that reduction have grown each year.

HOW MUCH HAVE TAXES BEEN REDUCED?

Before considering the individual tax relief measures, a brief look at Table I will summarize their combined effect on the total income tax bill of New Mexico taxpayers.

The tax reduction during the past three fiscal years, 61st to 63rd, has totaled $17.1 million, a loss of 9.4 percent of the potential revenue. Additional tax relief legislation became effective for tax year 1975 and more is in store for 1976, further reducing estimated revenues in the 64th and 65th fiscal years by 34.6 percent and 25.1 percent, respectively. The smaller percentage tax reduction in the 65th FY compared to the 64th FY is mainly due to technical factors: the timing of federal tax relief measures, and the relatively small growth of New Mexico rebate programs in the 65th FY after they jumped markedly in the 64th FY. Considering the five year span from the 61st FY to the 65th FY, the total tax relief is projected to be about $71.05 million, a loss of 19.5 percent of the potential income tax revenue.

**TABLE I**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Actual Or Estimated Net Revenue</th>
<th>What Revenue Would Have Been Without Tax Relief</th>
<th>Total Tax Relief Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-73 (act.)</td>
<td>$49,501</td>
<td>$50,701</td>
<td>$1,200</td>
<td>2.4%</td>
</tr>
<tr>
<td>1973-74 (act.)</td>
<td>57,946</td>
<td>59,746</td>
<td>1,800</td>
<td>3.0</td>
</tr>
<tr>
<td>1974-75 (act.)</td>
<td>56,575</td>
<td>70,675</td>
<td>14,100</td>
<td>19.9</td>
</tr>
<tr>
<td>1975-76 (est.)</td>
<td>54,600</td>
<td>83,450</td>
<td>28,850</td>
<td>34.6</td>
</tr>
<tr>
<td>1976-77 (est.)</td>
<td>74,900</td>
<td>100,000</td>
<td>25,100</td>
<td>25.1</td>
</tr>
<tr>
<td>Cumulative, 61st FY to 65th FY</td>
<td>$293,522</td>
<td>$364,572</td>
<td>$71,050</td>
<td>19.5%</td>
</tr>
</tbody>
</table>

*Note: Tax relief enacted prior to 1972 is ignored.*
WHAT MEASURES HAVE CONTRIBUTED TO INCOME TAX RELIEF?

The personal income tax burden has been reduced directly by state enacted legislation and indirectly as a result of federally enacted legislation. State enactments include: (1) the Low-Income Comprehensive Tax Rebate, begun in tax year 1972, (2) the reduction of New Mexico’s tax rates for 1974 and thereafter, (3) the Medical Expenses Tax Rebate, begun in tax year 1975, and (4) the Solar Energy Systems Tax Rebate, begun in tax year 1975. Federal enactments which have affected the New Mexico tax include: (1) the “Tax Reduction Act of 1975,” and (2) continued tax relief for 1976, as per the “Revenue Adjustment Act of 1975.” Table II demonstrates how these individual relief measures have grown since fiscal year 1972-73, and how they are expected to increase through fiscal year 1976-77.

The Low-Income Comprehensive Tax Rebate (LICTR)

The LICTR, which began in tax year 1972, has been designed to lessen the overall regressivity of the state and local tax system in the lower end of the income scale. The intent of the credit is to give back part of the total taxes paid by low-income, resident families during the taxable year, so that no family below the “poverty level” (as defined by the U.S. Department of Commerce) will pay a greater share of its income to taxes than a family at the “poverty level.” Although it is partial reimbursement for taxes of all types, including sales taxes, property taxes, etc., the LICTR is treated as an income tax rebate for administrative convenience. Where the rebate exceeds the income tax liability, the balance is allowed as an income tax refund. In almost all cases qualifying for the rebate, no tax is due; therefore, the full rebate is taken as a refund.

The amount of the LICTR is determined on a table by the number of allowable exemptions and by the claimant’s “Modified Gross Income” (MGI). The number of exemptions is generally the same as would be allowed for federal (and state) income tax purposes; however, beginning with the 1973 LICTR, an additional exemption has been allowed to the claimant (and spouse) age 65 and over. “Modified Gross Income” means all income undiminished by losses, and from whatever source derived. The cut-off for the rebate has been raised from the original maximum MGI of $6,000 in 1972 and 1973, to

| TABLE II |
| STATE AND FEDERAL TAX RELIEF LEGISLATION AFFECTING THE NEW MEXICO PERSONAL INCOME TAX 61st FY (1972-73) — 65th FY (1976-77) (Dollar Amounts in Thousands) |
| STATE LEGISLATION: |
| (1) Low-Income Comprehensive Tax Rebate | $1,200 | $1,800 | $2,900 | $4,800 | $4,900 | $15,600 |
| (2) New Mexico Tax Rates Reduced | — | — | 10,500 | 9,800 | 11,700 | 32,000 |
| (3) Medical Expenses Tax Rebate | — | — | 7,500 | 8,300 | 15,800 |
| (4) Solar Energy Systems Tax Rebate | — | — | — | 50 | 100 | 150 |
| TOTAL STATE ENACTMENTS | $1,200 | $1,800 | $13,400 | $22,150 | $25,100 | $63,550 |

FEDERAL LEGISLATION:

| (1) Tax Reduction Act of 1975 | — | — | $700 | $3,400 | — | $4,100 |
| (2) Revenue Adjustment Act of 1975 | — | — | — | 3,300 | 100 | 3,400 |
| TOTAL FEDERAL ENACTMENTS | — | — | $700 | $6,700 | $100 | $7,500 |
| TOTAL TAX RELIEF | $1,200 | $1,800 | $14,100 | $28,850 | $25,100 | $71,050 |
The New Mexico tax able come tax paid by a
The New Mexico Tax Rates Have been
the tax percent greater than the tax paid on the same
personal failed to reduce the progressivity of the rate structure in
year 1971. The purpose of the revised New Mexico
order to reduce the progressivity of our state and local tax system. The amount of the rebate for the 65th FY, shown on Table II, assumes that the same LICTR table will be used for 1976, as was used for 1975.

The number of individuals and families taking advantage of the LICTR has grown each tax year, both because of the higher dollar amounts of the allowable rebate and because of increasing public awareness of this program. During the first year of processing (FY 1972-73), about 29,000 rebates were disbursed. Last year (FY 1974-75), the number of claims had grown to nearly 53,000. By fiscal year 1976-77, more than 58,000 claims are expected. Tax rebates are still available for 1972, 1973 and 1974; they may be claimed along with the 1975 rebate by low-income families and individuals who have failed to apply in past years. However, the personal income tax form for each calendar year must be used to claim that year's rebate.

The New Mexico Tax Rates Have Been Reduced

The 1974 New Mexico Legislature passed a significant reduction of the personal income tax rates, effective for tax year 1974 and thereafter. The new rates combine two tax relief measures: (1) a tax decrease for single individuals, and (2) tax relief for all taxpayers, especially in the middle income ranges.

Single individuals were given a tax break in order to parallel the tax reduction given to them under the federal income tax beginning in tax year 1971. The purpose of the revised federal rates for single individuals is to provide that the tax paid by a single filer is no more than twenty percent greater than the tax paid on the same taxable income by a married couple filing jointly. The New Mexico tax rates were adjusted to mimic the percentage differences in federal tax, by income class, of joint vs. single returns.

The new tax rates also reflect a decision by the New Mexico Legislature to provide some general tax relief. The tax break was concentrated in the middle ranges of taxable income in order to reduce the progressivity of the rate structure in those ranges. As a result, all taxpayers received some tax relief in 1974, ranging from a fraction of one percent up to nearly a 36 percent decrease for some single individuals. The weighted average tax reduction for all types of taxpayers has been estimated to be approximately 11.8 percent. That tax break represented a loss of about $7.9 million of the revenue from the 1974 personal income tax, and the revenue loss is growing each year as personal incomes continue to grow in New Mexico.

The “front-end effect” of the 1974 tax rate decrease caused the 63rd FY tax loss to be greater than that for the 64th FY (See Table II). Because of the timing of the legislation, the state income tax withholding tables were not adjusted until July 1, 1974. The tables were overadjusted downward to make up for unintended overwithholding during the first half of the calendar year. Another set of revised tables became effective on January 1, 1975; they reflect the permanent tax rate reduction.

Medical Expenses Tax Rebate
For New Mexico Residents

The 1975 New Mexico Legislature passed a major tax relief program which rebates gross receipts tax paid by resident individuals on medical related expenses, effective for tax year 1975 and thereafter. The rebate is administered as a credit against income tax due, with any excess returned to the taxpayer as an income tax refund. The rebate may be claimed even though the qualified resident has no taxable income under the New Mexico Income Tax Act, and in addition to any refund due under the LICTR program.

The rebate is determined as the greater of two options:
(1) a minimum rebate of $5 per exemption allowed for federal (and state) income tax purposes, or
(2) a rebate of 4% of allowable, medical related expenses; this option may be elected whether or not the person itemizes deductions for federal tax purposes.

The major expenses not claimable under option (2) are hospital bills and insurance premiums for hospitalization and medical care insurance, since these items are generally not subject to the gross receipts tax. In general, other medical expenses may be claimed, including: expenses for doctors, dentists, optometrists, chiropractors, etc.; expenses for laboratory, surgical, diagnostic, nursing, x-ray and other medical services; bills for medicines and other related medical expenses. Detailed instructions about allowed and disallow-
ed expenses are included with the personal income tax instructions.

Since 1975 tax returns are just now being processed, the Bureau of Revenue has no actual data on the revenue impact. However, estimates have been made using available information sources. The tax loss is expected to be about $7.5 million in the program's first year. The amount of tax relief will tend to grow over time as population grows and as the relevant medical prices are inflated.

Solar Energy Systems Tax Rebate
For New Mexico Residents

Another tax relief program passed by the 1975 New Mexico Legislature provides New Mexico residents a personal income tax rebate for costs of conversion to or construction of certain solar energy systems, effective for tax year 1975 and thereafter. The rebate is allowed as a credit against personal income tax due, with any excess returned to the taxpayer as an income tax refund. The rebate is in an amount equal to 25 percent of the cost of equipment used in the taxpayer's principal residence for solar heating and/or cooling, if the residence is in New Mexico. The maximum rebate which may be claimed is $1,000.

A taxpayer may claim the rebate only once in a taxable year, and only once for a given principal residence. The rebate may not be claimed if a similar credit, deduction or exemption is claimed on the taxpayer's federal income tax return. (Federal legislation has been contemplated, but none has passed.)

Due to the small number of claims anticipated under this new program, the solar energy systems rebate has not been incorporated in the regular personal income tax form and instructions. Instead, individuals wishing to claim this rebate should contact the Bureau of Revenue to obtain the special tax credit form and instructions.

Estimating the revenue impact of this program is extremely difficult; there is no experience to draw on, and no reliable data upon which to base the first year estimate. The minor tax losses shown on Table II are tenuous estimates; however, they are not unreasonable in view of inquiries reaching the Bureau, and in view of the infrequent use of solar energy systems by home builders. Nevertheless, the impact of this program may well become significant in the future as New Mexico responds to the need for new sources of energy.

The Federal "Tax Reduction Act of 1975"

The federal "Tax Reduction Act of 1975" increased the Standard Deduction and Low Income Allowance (minimum Standard Deduction) for calendar year 1975 taxes. Since New Mexico taxable income is generally the same as federal taxable income, our state income tax for 1975 was automatically reduced as well.

Formerly, the standard deduction for joint and single returns was 15 percent of Adjusted Gross Income (AGI), from a minimum of $1,300 to a maximum of $2,000. For married persons filing separate returns, the minimum was $650 and the maximum was $1,000. The Standard Deduction was increased for tax year 1975, to 16 percent of AGI. The minimums and maximums were increased as follows: for joint returns, $1,900 to $2,600; for single returns, $1,600 to $2,300; and for separate returns, $950 to $1,300.

The tax relief approach used by the federal act gave a relatively greater tax break to lower-income taxpayers as opposed to higher-income taxpayers. For example, the reduction of New Mexico tax in 1975 for a family of four filing a joint return, using the standard deduction, with an AGI of $6,000, was about 43 percent. If the AGI were $40,000, the tax reduction would be 2.6 percent. The weighted average tax reduction for all New Mexico taxpayers has been estimated to be approximately 5.9 percent. That tax break represents a loss of about $4.1 million of revenue from the 1975 personal income tax.

The federal withholding tables were changed on May 1, 1975, effective through December 31, 1975; N.M. state withholding, which is based on the federal withholding, dropped beginning with June receipts—the reason for the minor effect in the 63rd FY. Two additional federal tax credits contained in the 1975 Act have caused reduced state withholding; that reduction will be retrieved through final tax settlements and reduced refunds for some taxpayers in the tax processing period, January 1976 — June 1976.

The Federal "Revenue Adjustment Act of 1975"

The Federal "Revenue Adjustment Act of 1975" was passed by Congress and signed by the President just before the end of the year as a last-minute compromise, tax relief measure for calendar year 1976 only. This last-minute compromise is significant because of the rather unique character and timing of the relief, and because of the probability of further tax relief being passed by the current session of Congress.
The act increases the Standard Deduction and Low Income Allowance for calendar year 1976: first by specifying what they would be on a “full-year” basis (a larger increase of the maximums and minimums than for 1975), then by applying a “six-month rule” which actually reduces them to a level less than the 1975 Standard Deduction but greater than the 1974 Standard Deduction. The result of this rather roundabout approach is a Standard Deduction for tax year 1976 of 16 percent of AGI. The minimums and maximums have been set as follows: for joint returns, $1,700 to $2,400; for single returns, $1,500 to $2,200; and for separate returns, $850 to $1,200.

This approach is similar to the 1975 tax relief in that it gives a relatively greater tax break to lower-income taxpayers as opposed to higher income taxpayers. For example, the New Mexico tax in 1976 for a family of four filing a joint return, using the standard deduction, with an AGI of $6,000, will be about 29 percent below what it would have been under the 1974 tax base. If the AGI were $40,000, the reduction would be 1.7 percent. The weighted average tax reduction for all New Mexico taxpayers has been estimated to be approximately 4.1 percent. That tax break represents a loss of about $3.4 million of revenue from the 1976 personal income tax. It should be noted that this act contains tax credit provisions similar to those for 1975, which will reduce state withholding and will be adjusted for in the tax return processing period.

As a result of the “six-month rule,” and because of language in the act specifying that the federal withholding tables in use for the latter part of 1975 should be used for the first six months of 1976, almost all of the New Mexico tax relief will be felt during the last half of the 64th FY. In essence, the tax relief will be compressed into the first six months of 1976 by using federal withholding tables which will reduce the payroll deductions for wage earners during that period enough to provide the full-year tax relief. The implication of this approach is, of course, that withholding rates must go up as of July 1, 1976; however, as has been mentioned there is a high probability of additional 1976 (and possibly 1977) tax relief being passed by Congress. In that event, just how the withholding rates will be set is uncertain at present; for purposes of the estimates in this article, it is assumed that withholding will go up in July and that no further tax relief will be passed.

A FINAL REVIEW OF THE TAX RELIEF MEASURES

Perhaps the best way to review all the tax relief measures that have accumulated since 1972 is to refer to the graph showing the “Effects of State & Federal Tax Relief Legislation on the Growth of New Mexico Personal Income Tax.” A glance at the graph on the following page tells the story: New Mexico taxpayers are enjoying a very substantial reduction in their tax burden. Whether their taxes should be further reduced or whether their taxes will need to be increased in the future are questions which this article does not pretend to answer; those are questions which will be answered by the taxpayers themselves through their elected representatives in state government.
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