TRD Legislative Proposal – Personal Income Tax Simplification

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Presented to the

Revenue Stabilization and Tax Policy Committee

**Sixth Meeting in 2007
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Personal Income Tax Simplification

Policy Goals

- **Reduce the time taxpayers devote to record keeping, tax return preparation, and return filing**

- **Reduce out-of-pocket payments to return preparers**

- **Increase fairness**

Personal Income Tax Simplification – Continued

Current Law

- **New Mexico taxable income is computed as follows:**

  Start with federal AGI

  + NM additions (e.g., interest on federally tax-exempt bonds)

  - Federal standard or itemized deductions

  - Federal personal exemption amount

  - NM low- and middle-income exemption

  - NM subtractions (e.g., interest on NM S&L bonds, capital gains)

  - NM medical care deduction

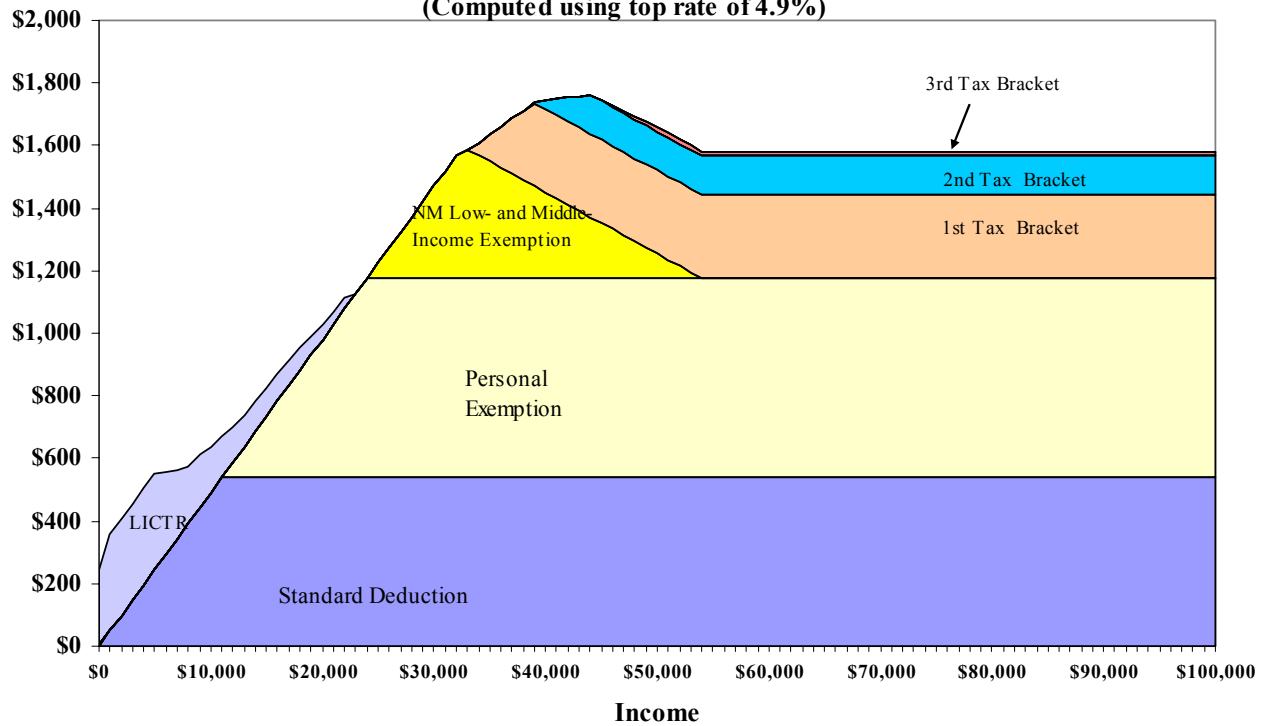 **= NM taxable income**

- **Tax liability is computed at graduated rates**

  - **Rates rise from 1.7% to 4.9% in 2008**

- **Tax rebates and credits are computed and applied**

  - **Most credits are nonrefundable**

  - **Refundable rebates and credits (except the new Working Families Tax Credit) are based on "Modified Gross Income" (MGI)**

- **Withholding and estimated payments are applied**

- **Taxpayers compute their tax due or refund**

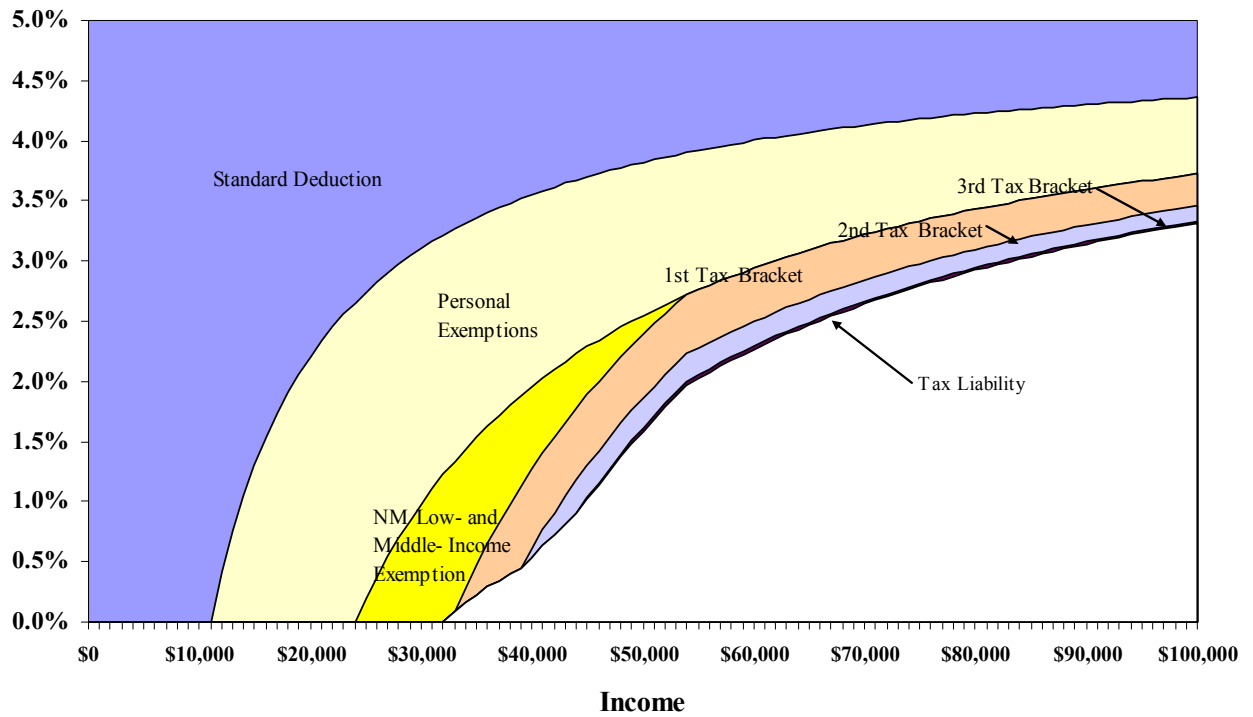# Personal Income Tax Simplification – Continued

Family and Child Related Tax Benefits

- **Progressivity is achieved primarily through certain family and child related tax benefits:**

  - **Standard deduction**

  - **Personal exemptions**

  - **NM low- and middle-income exemption**

  - **Graduated rates**

  - **LICTR**

- **The following six graphs illustrate how these family and child related tax benefits contribute to progressivity**

  - **The first graph shows the dollar value of each of these benefits for a family of four at income levels up to $100,000**

    - **The computations are made using the top 2008 rate of 4.9%**

  - **The second and third graphs show these dollar amounts expressed as a percentage of income**

  - **The following three graphs show the dollar value and percentage of income figures for a single individual**

- **Beginning in 2008, the Working Families Tax Credit will also add to progressivity**

  - **This credit is 8% of the federal EITC amount**

  - **Only families with earned income qualify**

  - **For these reasons, it cannot easily be integrated with the other benefits and therefore is omitted from the graphs and proposal**
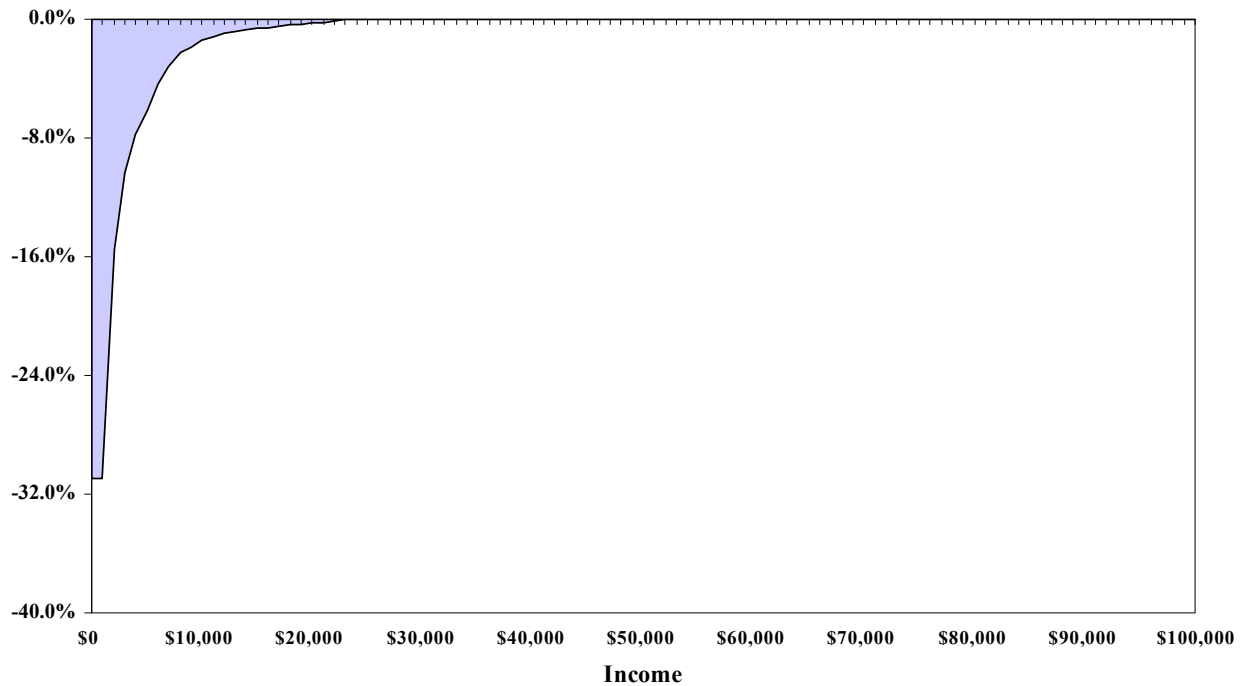
Income Tax Benefits of Family and Child Related Tax Provisions for a Married Couple with Two Children
(Computed using top rate of 4.9%)

Chart showing income tax benefits by income level. Y-axis ranges from $0 to $2,000 in $200 increments. X-axis shows Income from $0 to $100,000 in $10,000 increments. Stacked areas labeled: Standard Deduction, Personal Exemption, NM Low- and Middle-Income Exemption, LICTR, 1st Tax Bracket, 2nd Tax Bracket, 3rd Tax Bracket.
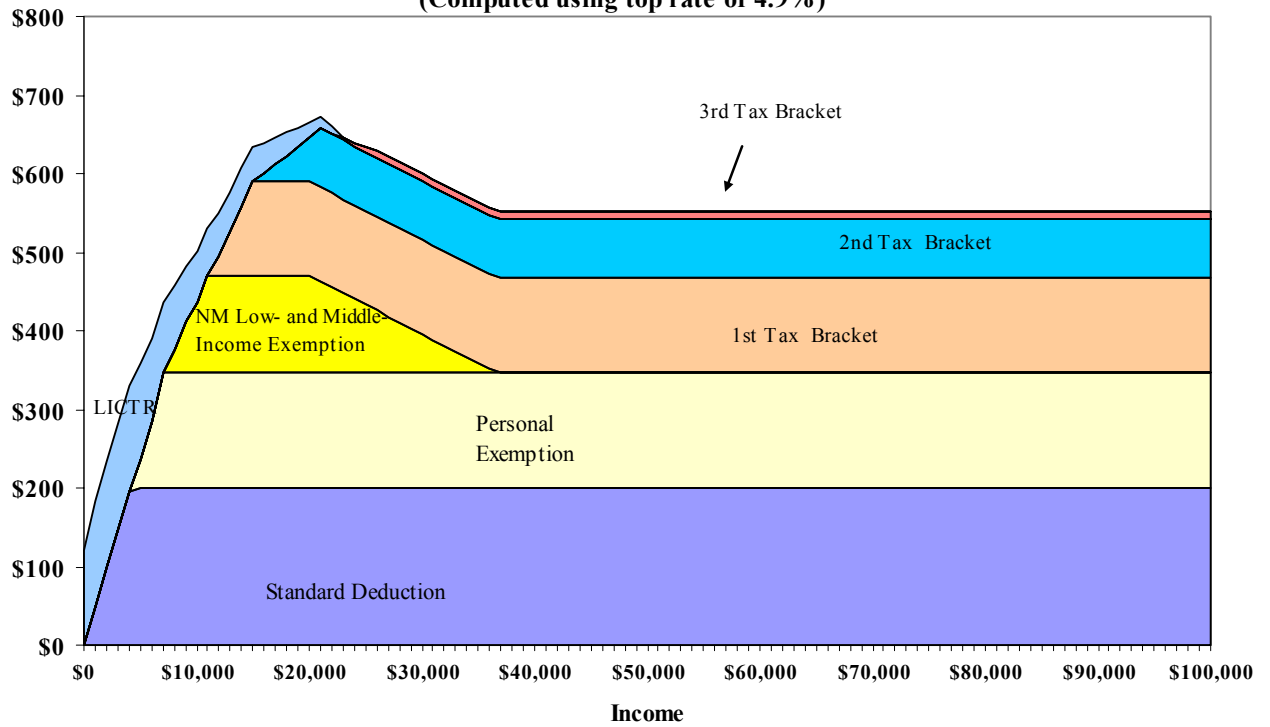
Income Taxes as a Percentage of Income for a Married Couple with Two Children
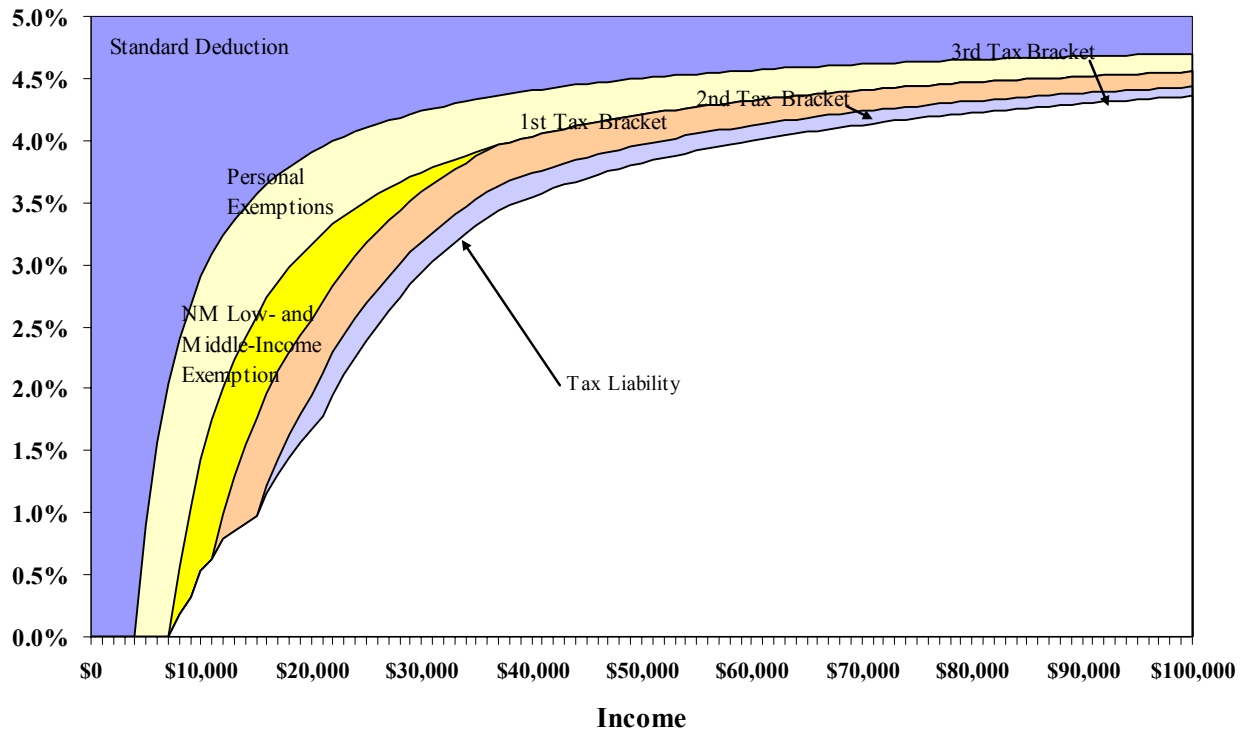### (Computed using top rate of 4.9%)

## Low Income Comprehensive Tax Rebate (LICTR) as a Percentage of Income for a Married Couple with Two Children

Income Tax Benefits of Family and Child Related Tax Provisions for a Single Taxpayer
(Computed using top rate of 4.9%)

- 6 -

Income Taxes as a Percentage of Income for a Single Taxpayer
(Computed using top rate of 4.9%)

Low Income Comprehensive Tax Rebate (LICTR) as a Percentage of Income for a Single Taxpayer
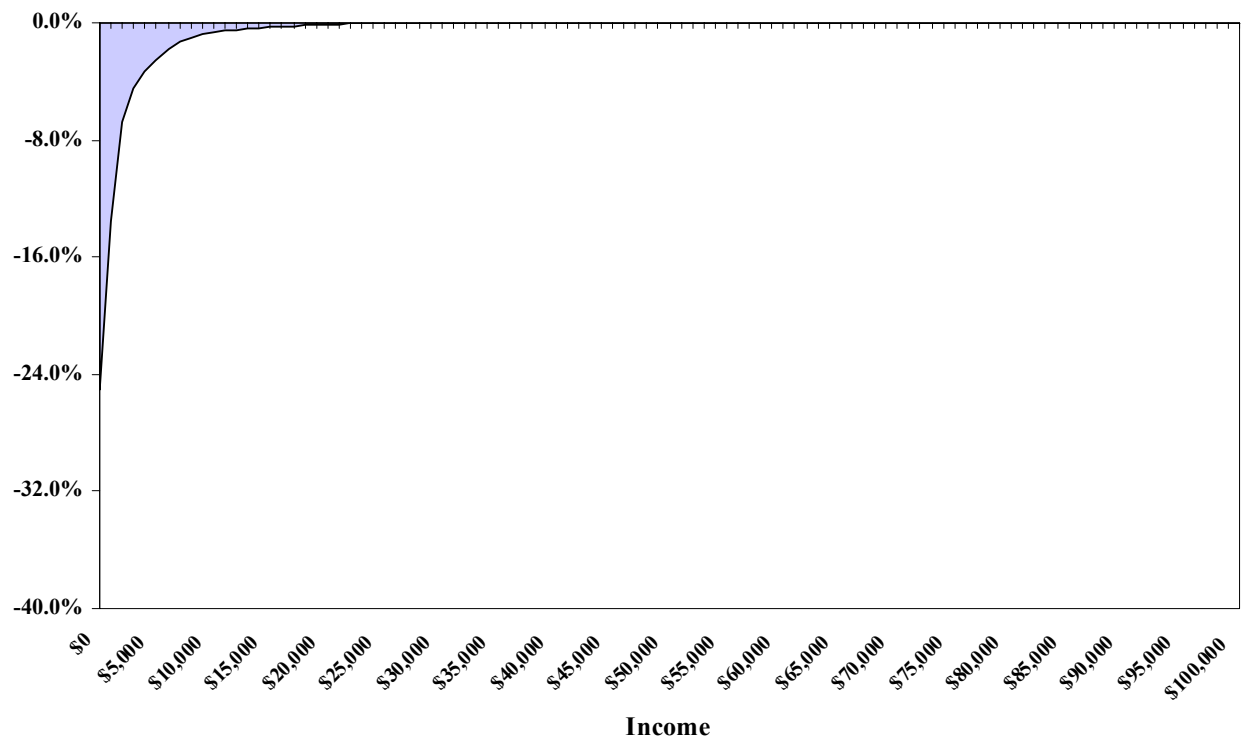
Personal Income Tax Simplification – Continued

Proposal

- **Combine the family and child related tax benefits into a new credit**

  - **The new credit would replace the standard deduction, personal exemptions, NM low- and middle-income exemption, graduated rates, and LICTR**

  - **The new credit would vary with filing status, family size (number of dependents), and income**

  - **Income for purposes of the new credit would be <u>taxable income</u>, so no taxpayer would need to calculate MGI to claim the credit**

  - **The new credit would be indexed for inflation**

- **Greatly simplify the definition of MGI**

  - **Few taxpayers would need to calculate MGI, and only for purposes of the remaining refundable credits (LCITR would be included in the new credit)**

  - **Low-income families are most likely to have differences between MGI and AGI because MGI includes total Social Security benefits and TANF, SSI and other benefits not included in AGI**

    - **Benefits other than Social Security tend to be relatively small and difficult for many families to track carefully and to verify**

  - **The simplified definition would add to federal AGI only the non-taxable portion of Social Security benefits**

- **The new credit would closely replicate current family and child related tax benefits (see following graph for a family of four)**

  - **For very low income levels the credit would be a constant amount (for each family type and size), to reflect the structure of LICTR and to offset the simplification of MGI**

New Credit to Replace Family and Child Related Tax Provisions for a Married Couple with Two Children
(Computed using top rate of 4.9%)

New Credit

NM Low- and Middle-Income Exemption

2nd Tax Bracket

3rd Tax Bracket

1st Tax Bracket

Personal Exemption

LICTR

Standard Deduction

Income

Personal Income Tax Simplification – Continued

<u>**Effect of Proposal**</u>

- **The new credit would simplify the personal income tax by:**

  - **Removing the need to include the standard deduction, personal exemptions, and the NM low- and middle-income exemption in the computation of income subject to tax**

    - **For most taxpayers, NM taxable income would be federal AGI**

    - **Itemizers would deduct the excess of their federal itemized deductions over the standard deduction (already in new credit)**

  - **Simplify the computation of tax liability, since there would only be one tax rate of 4.9%**

    - **The value of lower rates would be included in the new credit**

  - **With only one tax rate, there would be no need for a separate calculation for lump-sum distributions**

  - **Most families would be able to compute their tax by simply:**

    - **Looking up their tax amount in a table based on taxable income (which typically would be the same as AGI) and filing status, and**

    - **Looking up their new credit amount in a table based on taxable income, filing status and family size**

  - **Simplify the computation of MGI for purposes of remaining refundable credits**

  - **The attached marked-up forms illustrate how these changes would simplify tax forms**

- **The new credit would make the personal income tax fairer because it would be indexed for inflation**

- **Currently, rate brackets, the NM low- and middle-income exemption, and LICTR lose value over time due to inflation**

- **The new credit would also increase fairness by smoothing out the pattern of family and child related tax benefits**

- **The new credit would provide greater flexibility in designing New Mexico family tax benefits by decoupling from the federal standard deduction and personal exemption amounts**

2006 PIT-1 NEW MEXICO PERSONAL INCOME TAX

For the year January 1 - December 31, 2006,

or other fiscal year beginning _____ 2006, ending _____ 2007.

If amending use Form 2006 PIT-X.

☐ Check this box if address is new or changed.

Print your name (first, middle, last)

Print your spouse's name (first, middle, last) (Include spouse if married filing separately)

Mailing Address

City, State and Zip Code

1. SOCIAL SECURITY NUMBER

Residency status: complete for each taxpayer.

Enter "R" if RESIDENT;
"N" if NON-RESIDENT;
"F" if FIRST-YEAR RES.;
"P" if PART-YEAR RES.

Check if taxpayer or spouse named on the return is deceased. Enter date of death.

☐ _____

☐

Enter claimant's name and SSN if the refund must be made payable to another person - Attach Form RPD-41083

2. EXEMPTIONS Number of Qualified Exemptions.
If you are a dependent of another taxpayer, enter 00. ☐☐

3. **EXTENSION OF TIME TO FILE** - Mark the box if you have a federal or state extension, and enter extension date. ☐ _____ mm/dd/yy

4. **FILING STATUS - Check only one box below.**
   - ☐ (1) Single
   - ☐ (2) Married filing jointly
   - ☐ (3) Married filing separately (Enter spouse's Social Security Number above)
   - ☐ (4) Head of Household (Enter name of person qualifying you as head of household if that person is not counted as a qualified exemption on your federal return _____)
   - ☐ (5) Qualifying widow(er) with dependent child

5. **DEPENDENTS: As listed on your federal return**

(1) First name Last name	(2) Dependent's social security number

☐ Check this box if federal Form(s) 8886, *Reportable Transaction Disclosure Statement*, is required to be attached.

6. **FEDERAL ADJUSTED GROSS INCOME** (From line 38 of federal Form 1040, line 22 of Form 1040A or line 4 of Form 1040EZ)		6	00
7. Additions to federal income (From line 4 of PIT-ADJ; **attach PIT-ADJ**) +		7	00
8. Federal standard or itemized deduction amount (From line 40 of federal Form 1040, line 24 of Form 1040A or line 5 of Form 1040EZ) - 8a. Check here if you itemized ☑		8	////// 00
9. Federal exemption amount (From line 42 of federal Form 1040, line 26 of Form 1040A, or leave blank if you filed Form 1040EZ) -		9	////// 00
10. New Mexico low- and middle-income tax exemption (See PIT-1 instructions) -		10	////// 00
11. Deductions/Exemptions from federal income (Line 21 of PIT-ADJ; **attach PIT-ADJ**) - [Line 11 will include itemized deductions in excess of standard deductions.]		11	00
12. Medical care expense deduction (See PIT-1 instructions) -		12	00
12a. Unreimbursed and uncompensated medical care expenses $_____			
13. **NEW MEXICO TAXABLE INCOME** (Add lines 6 and 7, then subtract lines 8, 9, 10, 11 and 12) =		13	00
14. Tax on amount on line 13; If from the Rate Table, enter "R", If from line 15 of PIT-B, enter "B" ☐		14	00
15. Additional amount for tax on lump-sum distributions (See PIT-1 instructions) +		15	00
16. Credit for taxes paid to another state. You must have been a New Mexico resident during all or part of the year. (See PIT-1 instructions. Include a copy of other state's return.) -		16	00
17. Non-refundable credits from Schedule PIT-CR (Line 11 of PIT-CR; **attach PIT-CR**) -		17	00
18. **NET NEW MEXICO INCOME TAX** (Add lines 14 and 15 minus lines 16 and 17) = (Cannot be less than zero.) [Add another line for new consolidated credit.]		18	00
19. Total claimed on rebate and credit schedule (Line 25 of PIT-RC; **attach PIT-RC**)		19	00
20. New Mexico income tax withheld (Attach W-2, 1099 or WK) +		20	00
21. New Mexico income tax withheld from oil and gas proceeds (Attach 1099 or RPD-41285) +		21	00
22. 2006 estimated income tax payments (See PIT-1 instructions) +		22	00
23. Other payments. +		23	00
24. **Total payments and credits** (Add lines 19 through 23) =		24	00
25. **TAX DUE** (If line 18 is **greater** than line 24, enter the difference here.)		25	00

Continue on the next page.

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2006 PIT-RC
NEW MEXICO REBATE AND CREDIT SCHEDULE

This schedule may be used by individuals who qualify for one or more refundable rebates and credits offered by New Mexico. Include the Schedule PIT-RC with your Personal Income Tax Return, Form PIT-1.

Print your name (first, middle, last)

YOUR SOCIAL SECURITY NUMBER

SECTION I: QUALIFICATIONS FOR REBATES AND CREDITS REPORTED IN SECTIONS II THROUGH V. Complete Section I to claim THE FOLLOWING REBATES AND CREDITS IN SECTIONS II THROUGH V. To claim any REFUNDABLE TAX CREDITS IN SECTION VI, YOU DO NOT NEED TO COMPLETE SECTION I.

Persons with Modified Gross Income of:
- **$16,000 or less who are age 65 or older** may qualify for the *Property Tax Rebate.*
- **$21,424 or less** may qualify for the *New Mexico Child Day Care Credit.*
- **$22,000 or less** may qualify for the *Low Income Comprehensive Tax Rebate.*
- **$24,000 or less who live in Los Alamos County ONLY** may qualify for a *Low Income Property Tax Rebate.*

READ REBATE AND CREDIT SCHEDULE INSTRUCTIONS FOR COMPLETE ELIGIBILITY REQUIREMENTS.

A. Were you a resident of New Mexico during any portion of the tax year? YES ☐ NO ☐

B. Were you physically present in New Mexico for at least six months in 2006? YES ☐ NO ☐

C. Were you a dependent of another taxpayer for income tax purposes in 2006? YES ☐ NO ☐

INMATE OF PUBLIC INSTITUTION
Check the appropriate box(es) if:
☐ TAXPAYER or ☐ SPOUSE
was an inmate of a public institution in 2006 for a period of more than six months.

CALCULATE HOUSEHOLD MEMBERS - If you had children who were members of your household for tax year 2006, but did not qualify as your dependents for federal income tax purposes because of Public Assistance or Supplemental Security Income (SSI), enter the name, age and social security numbers of those minor children. Enter the number of additional minor children in line 1a.

1a. Minor Child's Name	Age	Social Security Number If age 1 or Older	Minor Child's Name	Age	Social Security Number If age 1 or Older		
						1. Number of exemptions on line 2 of Form PIT-1	
						1a. Number of additional children listed at left.	
						1b. ADD boxes 1 and 1a Household Members	

CALCULATE ALLOWABLE HOUSEHOLD MEMBERS AND EXTRA EXEMPTIONS

2. a. Enter number of household members who DO NOT qualify. If all exemptions qualify, leave blank. ...... 2a -
   (See PIT-RC instructions)
   b. Subtract 2a from 1b. Number of allowable household members. ...... 2b =
   c. Extra Exemption: Check box if **you are blind** : ☐
      (If Married Filing Jointly) if **your spouse is blind**: ☐ Add the number of boxes checked. Enter here. ...... 2c +
   d. Add lines 2b and 2c. ...... 2d =
   e. If you are 65 or older enter "2". ...... 2e +
   f. If Married Filing Jointly and your spouse is 65 or older enter "2". ...... 2f +
   g. Add lines 2d, 2e and 2f. ...... 2g =
   h. If you checked filing status (3); Married Filing Separately, on your Form PIT-1, enter the number
      of exemptions your spouse claimed on line 2g of his or her PIT-RC if applicable. ...... 2h +
3. Add lines 2g and 2h. Enter here and on line 13a on page 2 of this form. ...... 3 =

CALCULATE MODIFIED GROSS INCOME - Modified Gross Income, generally, is all income of the taxpayer and household members, both taxable and nontaxable, and undiminished by losses. See instructions for certain types of income that do not have to be included in modified gross income.
NOTE: If Married Filing Separately, be sure to include spouse's income.

4. Wages, salaries, tips, etc. ...... [Federal adjusted gross income.] | 4 | 00

5. Social Security benefits, pensions, annuities and Railroad Retirement. [benefits not included in AGI.] + | 5 | 00

6. Unemployment and Worker's Compensation benefits. + | 6 | 00

7. Public assistance, TANF, welfare benefits and Supplemental Security Income (SSI) + | 7 | 00

8. Net profit from business, farm or rentals. If a loss, enter zero. Do not enter a negative number. + | 8 | 00

9. Capital gains undiminished by capital losses. + | 9 | 00

10. Gifts of cash or marketable tangible items received. (Must be given a reasonable value.) + | 10 | 00

11. All other income such as interest, dividends, gambling winnings, insurance settlements, scholarships, grants, VA benefits, trust income and inheritance, alimony and child support. + | 11 | 00

12. Modified Gross Income. (Add lines 4 through 11) Enter total on line 12 and on line 13 of page 2.
(Must equal or exceed Federal Adjusted Gross Income from line 6 of Form PIT-1.) = | 12 | 00

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2006 PIT-RC (page 2)

YOUR SOCIAL SECURITY NUMBER

SECTION II: LOW INCOME COMPREHENSIVE TAX REBATE
(If line 13 is MORE than $22,000, DO NOT COMPLETE this section.)

13. Enter Modified Gross Income from line 12. | 13 | | 00

  a. Enter total exemptions from line 3. | 13a | |

14. Low Income Comprehensive Tax Rebate: On table 1 on page 4 RC, find the Modified Gross Income range that includes the amount on line 13, then move across to the column that matches the number of exemptions on line 13a. (Married couples filing separately must divide result by two.) | 14 | | 00

SECTION III: FOR PERSONS 65 OR OLDER - PROPERTY TAX REBATE
(If line 13 is more than $16,000, do NOT complete this section.)

15. PROPERTY OWNED - Tax billed for the calendar year on principal place of residence. | 15 | | 00

16. PROPERTY RENTED

  a. Amount of rent paid during the tax year for principal place of residence. | 16a | | 00

  Check if the amount entered on line 16a includes rent paid on your behalf by a government entity. ☐

  b. Multiply line 16a by .06 and enter the amount here. | 16b | | 00

17. REBATE AMOUNT

  a. Add lines 15 and 16b and enter the total here. | 17a | | 00

  b. Find the Modified Gross Income range, table 2 on page 5 RC, that corresponds to the amount on line 13. Read across to the matching number in the Maximum Property Tax Liability table, and enter amount here. | 17b | | 00

  c. Property Tax Rebate: Subtract line 17b from 17a.
  Do not enter more than $250, or more than $125 if Married Filing Separately. | 17c | | 00

SECTION IV: ADDITIONAL LOW INCOME PROPERTY TAX REBATE for Los Alamos County residents only.
(If line 13 is over $24,000, do NOT complete this section.)

18. REBATE AMOUNT

  a. PROPERTY OWNED only. - Tax billed for the calendar year on principal place of residence. | 18a | | 00

  b. Find the Modified Gross Income range, table 3 on page 5 RC, that corresponds to the amount on line 13, above. Read across to the matching percentage in the Property Tax Rebate Percentage column and enter here. | 18b | | %

  c. Multiply line 18a by line 18b and enter here.
  Do not enter more than $350 or $175 if Married Filing Separately. | 18c | | 00

SECTION V: NEW MEXICO CHILD DAY CARE CREDIT WORKSHEET If Modified Gross Income on line 13 is $21,424 or less, use the worksheet below to figure your available Child Day Care Credit. Add another sheet if necessary. Attach Form PIT-CG.

19. Enter either the total of Column G or $1,200, WHICHEVER IS LESS. | 19 | | 00

20. Number of qualified dependents under age 15 receiving child day care. | 20 | |

21. Enter portion of Federal Child Care Credit applied against your federal tax from Form 1040 or 1040A. | 21 | | 00

22. New Mexico Child Day Care Credit: Subtract line 21 from line 19.
   (Married couples filing separately must divide result by two.) | 22 | | 00

SECTION VI: REFUNDABLE TAX CREDITS

23. Refundable medical care credit for persons 65 or older. (See PIT-RC instructions) | 23 | | 00

24. Approved film production tax credit claimed. (Attach RPD-41228) | 24 | | 00

SECTION VII: TOTAL REBATES AND CREDITS CLAIMED

25. Add lines 14, 17c, 18c, 22, 23 and 24. Enter here and on line 19 of the Form PIT-1. | 25 | | 00

COLUMN A Name of Child	COLUMN B Age of Child	COLUMN C Number of days of care	COLUMN D Amount paid per day not to exceed $8.00	COLUMN E Day Care Expenses Multiply Col. C by Col. D	COLUMN F Multiply Col. E by .40 Enter in Column G	COLUMN G Available day care credit not to exceed $480/child
					.40	
					.40	
					.40	

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