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FISCAL IMPACT REPORT

ORIGINAL DATE 01/23/13

SPONSOR Candelaria/Sandoval LAST UPDATED _____ HB _____

SHORT TITLE Increase Working Families Tax Credit SB 109

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15	FY16	FY17		
	(\$25,950.0)	(\$26,730.0)	(\$27,530.0)	(\$28,360.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

This bill amends Section 7-2-18.15 NMSA 1978, to increase the working families' tax credit from ten percent of the federal income tax credit to fifteen percent.

Effective Date: Not specified; 90 days following adjournment (June 14, 2013); Applicable to taxable years beginning on or after January 1, 2013.

FISCAL IMPLICATIONS

TRD estimated fiscal impacts were estimated by sorting information from NM Personal Income Tax returns. Approximately 200 thousand New Mexico taxpayers annually claim this credit at the 10 percent rate in the amount of about \$47.5 million according to Tax Year 2010 data. Increasing the rate to 15 percent implies an increase in the credit amount by 50 percent.

TRD notes that impacts would increase at a rate slightly below the rate of inflation because the federal Earned Income Tax Credit is indexed for inflation, and the population of eligible households will not grow as quickly as the total population. Therefore a growth rate of 3 percent was used to calculate the subsequent year fiscal impacts. TRD grew the out-year impacts by three percent.

SIGNIFICANT ISSUES

The EITC, Earned Income Tax Credit, is a benefit for working people who have low to moderate income. The IRS code establishes certain limits on the credit.

Tax Year 2012 maximum adjusted gross income:

- 45,060 (\$50,270 married filing jointly) with three or more qualifying children
- 41,952 (\$47,162 married filing jointly) with two qualifying children
- 36,920 (\$42,130 married filing jointly) with one qualifying child
- 13,980 (\$19,190 married filing jointly) with no qualifying children

Tax Year 2012 maximum credit:

- \$5,891 with three or more qualifying children
- \$5,236 with two qualifying children
- \$3,169 with one qualifying child
- \$475 with no qualifying children

Investment income must be \$3,200 or less for the year.

Using the 2012 limitations, a family of five could expect their credit to be increased from a maximum of \$589 to \$834.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

TECHNICAL ISSUES

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy:** Revenue should be adequate to fund needed government services.
2. **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity:** Different taxpayers should be treated fairly.
4. **Simplicity:** Collection should be simple and easily understood.
5. **Accountability:** Preferences should be easy to monitor and evaluate