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

	ORIGINAL DATE 01/29/14		
SPONSOR Sandoval	**LAST UPDATED** 02/05/14	**HB**	180
SHORT TITLE Increase Working Families Tax Credit		**SB**	

ANALYST   Dorbecker

REVENUE (dollars in thousands)

Estimated Revenue Impact					Recurring or Nonrecurring	Fund Affected
FY14	**FY15**	**FY16**	**FY17**	**FY18**		
$0.0	($26,000.0)	($27,000.0)	($28,000.0)	($29,000.0)	Recurring	General Fund

Parentheses ( ) indicate a revenue loss.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 180 amends Section 7-2-18.5 NMSA 1978 of the Income Tax Act to increase the working families' tax credit (WFTC) from 10 percent of the federal income tax credit to 15 percent.

There is no effective date of this bill. It is assumed that the new effective date is 90 days after this session ends; applicable to taxable years beginning on or after January 1, 2014.

FISCAL IMPLICATIONS

Information provided by the Taxation and Revenue Department (TRD) was used to estimate the fiscal impact of this bill. Using information from New Mexico personal income tax returns (tax year 2012), approximately 200 thousand New Mexico taxpayers claim this credit annually at the 10 percent rate in the amount of $49.6 million. Increasing the rate of the tax credit to 15 percent implies a 50 percent increase in the credit amount.

This amount would increase at a rate slightly below the rate of inflation because the federal Earned Income Tax Credit (EITC) 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.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for tax expenditures may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

TRD reports lower income people qualify for federal EITC on which the Working Families credit is based. Therefore, lower income families would benefit from the rate increase.

The increase in the rate and thereby the credit amount implies injecting money into the New Mexico economy as generally lower income people have lower rates of saving.

ADMINISTRATIVE IMPLICATIONS

Minimal impact.

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

---

HD/ds:svb