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

		LAST UPDATED	
SPONSOR	Shendo/Chandler/Wirth/Martinez, J.	**ORIGINAL DATE**	1/27/23
SHORT TITLE	Additional 2021 Income Tax Rebates	**BILL NUMBER**	Senate Bill 10
		ANALYST	Faubion

APPROPRIATION*
(dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY23	FY24		
$30,000.0	--	Nonrecurring	General Fund – HSD Relief Payments
$25.0	--	Nonrecurring	General Fund – HSD Admin.
$320.0	--	Nonrecurring	General Fund – TRD Admin.
$422.0	--	Nonrecurring	General Fund – DFA Admin.

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent version of this legislation.

REVENUE*
(dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25	FY26	FY27		
(1,000,000.0)	($10,000.0)	--	--	--	Nonrecurring	General Fund

Parenthesis ( ) indicate revenue decreases
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	$319.4	--	--	$319.4	Nonrecurring	TRD/ITD
Total	$319.4	--	--	$319.4	Nonrecurring	

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent version of this legislation.

Sources of Information
LFC Files

Responses Received From
Attorney General (NMAG)
Taxation and Revenue Department (TRD)
Human Services Department (HSD)

No Response Received
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Senate Bill 10

Senate Bill 10 (SB10) provides a temporary personal income tax (PIT) rebate to be paid to all residents who filed state tax returns for tax year 2021. The proposed rebate is $750 for single filers and married individuals filing separate returns and $1,500 for married individuals filing joint returns, heads of household, and surviving spouses. For households ineligible for the rebates, SB10 appropriates $30 million to the Human Services Department (HSD) for FY23 and FY24 to provide a one-time relief payment of $1,500 to households of married couples or single individuals with one or more dependents and $750 for households of single individuals without dependents.

SB10 appropriates $320 thousand from the general fund to the Taxation and Revenue Department (TRD) for FY23 and FY24 to administer the rebates and to assist HSD in administering the relief payments. The bill also appropriates $25 thousand to HSD to administer the relief payments and $422 thousand to DFA for fiscal agent fees and administration.

This bill contains an emergency clause and would become effective immediately on signature by the governor.

FISCAL IMPLICATIONS

The estimated loss in general fund revenues due to the rebates is $1 billion in FY23 and $10 million in FY24. Given that the rebate language mirrors the supplemental income tax rebate previously adopted (in House Bill 2 of the 2022 special legislative session) and is also based on tax year 2021 filing, TRD assumes the same universe of tax filers would be eligible for the rebate as in 2022. TRD assumes approximately 1 percent of the rebate amount would offset 2021 personal income tax (PIT) liability. This is set low at 1 percent because prior 2021 tax year rebates have already offset 2021 PIT liability substantially. Finally, TRD assumes, due to some checks and direct deposits being returned due to changed addresses and bank accounts, approximately $10 million of the revenue impact would be incurred in FY24 when those rebates are re-sent to taxpayers.

The appropriation to HSD for the relief payments for residents who do not qualify for the rebates is $30 million. The appropriation would be used to fund, on a first-come, first-served basis, payments for up to 40 thousand residents who are not eligible to receive the rebates.

The bill also appropriates $25 thousand to HSD for costs of administering the relief payments. The appropriation to TRD to pay for the administration of the rebates and the relief payments is $320 thousand. The bill also appropriates $25 thousand to HSD to administer the relief payments and $422 thousand to DFA for fiscal agent fees and administration.

The total appropriations of $30.8 million contained in this bill are a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY24 shall revert to the general fund.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. 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 a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact.

SIGNIFICANT ISSUES

HSD notes most New Mexicans who do not file taxes are low-income individuals and families. The relief payments would help New Mexicans who are struggling with food and income insecurity.

TRD notes the following:

> The state general fund has experienced substantial growth with the recovery out of the COVID-19 pandemic, expansion of the GRT tax base with online sales, and strength from direct and indirect revenues from the severance of oil and natural gas. New Mexico joins many other states seeing record revenues exceeding expectations. The rebate and associated relief payments for non-tax filers represent an equitable distribution of surplus revenue to every resident of New Mexico.
>
> At the end of FY23, prior to actions taken during this 2023 regular legislative session, general fund reserves are projected to reach $5.08 billion, or 60.5 percent of recurring appropriations due to historic oil and natural gas production and broad-based economic growth. The rebates proposed in this bill are one of several steps state policymakers can take to target a fiscally responsible level of reserves without committing to recurring expenditure growth or tax cuts that may not be sustainable in future years. The estimated rebate and relief payments total $1.04 billion, which is equivalent to 12.4 percent of recurring appropriations. These rebates, combined with a 35 percent reserve target, smart investments in critical public services, and a sustainable level of recurring tax relief will poise New Mexico to weather future oil-related volatility.
>
> The rebates will support New Mexicans who have faced the high costs of inflation in household expenditures such as groceries, gasoline, heating costs and other expenses over the last year. There are also multiplier effects of a rebate such as this on the economy. The magnitude of the fiscal multiplier, however, is debatable and a consensus among economists doesn't exist[1]. New Mexicans may also choose to use the rebates to reduce household debt or improve future liquidity positions, both of which will make New Mexico households more resilient.
>
> TRD will intercept rebates for a small percentage of taxpayer who have outstanding 2021 tax debt. Although taxpayers whose refunds/rebates are intercepted will not directly receive the financial benefit, their outstanding debt will be reduced and, in the case of child support, the beneficiary custodial parties will benefit from receiving additional child support owed to them.

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[1] Whalen, Charles, and Felix Reichling. 2015. "The Fiscal Multiplier and Economic Policy Analysis in the United States." Working Paper 2015-2. Washington, DC: Congressional Budget Office.

Giving government rebates in an inflationary environment could make matters worse by driving prices up further. When consumers get an influx of cash, they likely spend it. That additional spending may drive prices up and further contribute to inflation.

PERFORMANCE IMPLICATIONS

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

ADMINISTRATIVE IMPLICATIONS

The cost to HSD to implement and administer SB10 would be $25 thousand. The bill includes a sufficient appropriation to cover these costs. Costs incurred by HSD would include information technology changes needed for the application portal and improved fraud detection tools in the application process. Some costs would also be incurred to make sure HSD's call center is adequately staffed for increased call volume.

Rebates issued by TRD in mid-2022 generated a wave of phone calls, visits, and emails that were difficult for TRD to absorb. However, TRD expects issuance of these rebates to be significantly smoother for several reasons.

- First, the rebates are tied to 2021 tax returns, which are by and large now filed and processed; this was not the case when TRD began issuing rebates in May 2022.
- Second, the appropriations to DFA and TRD contained in the bill would allow for printing and mailing of an expected 350 thousand paper rebate checks to be handled by the state's fiscal agent bank. The bank has capacity to print and mail over three times as many checks per day as TRD does, meaning rebates will be delivered more quickly to those receiving paper checks.
- Last, the IT programming needs of this rebate are not as significant because TRD will be able to re-use some of the programming completed in 2022.

Implementation of this bill would require about 1,500 hours of work, or six weeks, by the Information Technology Division (ITD and three months of collaborative work with HSD for total costs of $315 thousand in contractual resources and $4,443 of staff workload costs.

Although the state fiscal agency bank will print and mail the rebates, the Revenue Processing Division (RPD) of TRD will need to address returned mail rebates while still maintaining return and refund processing performance.

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

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

1. **Vetted**: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted**: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent**: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable**: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective**: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

LFC Tax Expenditure Policy Principle	Met?	Comments
Vetted	✗	The rebate has not been vetted through interim legislative committees.
Targeted		There are no stated purposes, long-term goals, or annual targets identified in the bill.
Clearly stated purpose	✗	
Long-term goals	✗	
Measurable targets	✗	
Transparent	?	There are no reporting requirements by HSD or TRD; however, the rebate expenditure will be included in TRD's tax expenditure report.
Accountable		
Public analysis	?	The public can review the tax expenditure report, but no other data on the rebates or relief programs are required to be made available for public analysis.
Expiration date	✓	The rebates and relief payments are one-time costs and has an expiration date.
Effective		No stated purpose or desired actions/results.
Fulfills stated purpose	?	
Passes "but for" test	?	
Efficient	?	No desired results are identified by which to measure effectiveness.
Key: ✓ Met ✗ Not Met ? Unclear		

IT/JF/LG/al/hg