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FISCAL IMPACT REPORT

SPONSOR <u>Brandt</u> SHORT TITLE <u>Teacher School Supply Purchase Tax Deduction</u>	LAST UPDATED <u>1/26/23</u> ORIGINAL DATE <u>1/20/23</u> BILL NUMBER <u>Senate Bill 28</u> ANALYST <u>Faubion</u>
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REVENUE* (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25		
--	(\$320)	(\$640)	Recurring	General Fund

Parentheses () indicate revenue decreases.

*Amounts reflect most recent version of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	--	\$5.6	--	\$5.6	Nonrecurring	General Fund – TRD/ITD
Total		\$5.6		\$5.6		

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent version of this legislation.

Sources of Information

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Public Education Department (PED)

SUMMARY

Synopsis of Senate Bill 28

Senate Bill 28 (SB28) creates an income tax deduction for school supplies purchased by a public school teacher of up to \$500 in tax year 2023 and \$1,000 in tax year 2024 and after. The school supplies must be used for educational uses in the teacher's classroom and by the teacher's students.

This bill does not contain an effective date, and as a result, will go into effect 90 days after the Legislature adjourns if it is signed into law. The bill applies to taxable years beginning on or after January 1, 2023.

FISCAL IMPLICATIONS

The proposed bill provides a personal income tax (PIT) deduction to all public school teachers who spend their own money on classroom supplies in New Mexico. According to the last report of the National Center for Educational Statistics, 94 percent of all public school teachers in the United State have spent their own money on classroom supplies without reimbursement. The Taxation and Revenue Department (TRD) applied that percentage to the 21,850 public school teachers in New Mexico during the academic year 2019-2020 to estimate that approximately 20,539 teachers may claim the deduction. The lost revenue to the general fund is based on a median wage of \$54,923 and an effective tax rate of 3.1 percent for a taxable income between \$50 thousand and \$75 thousand.

The fiscal impact increases from FY24 to FY25 because the deduction amount doubles from \$500 for tax year 2023 to \$1,000 for tax year 2024 and onwards. The impact is estimated to be constant after that. The analysis is made on the prepandemic number of teachers; it is assumed the number of teachers reaches prepandemic levels in the coming years and remains flat. Also, it is assumed the mean wage for teachers will stay in the specified range above for the coming years, and therefore, no significant changes in the effective tax rate are expected.

TRD will need to make information system changes and update forms and publications. These changes will be incorporated into annual tax year implementation and represent \$5,600 in workload costs for the Information Technology Division (ITD).

This bill creates or expands a tax expenditure with a cost that is difficult to determine. LFC has serious concerns about the significant risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied. 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. 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

The bill's purpose appears to be compensating teachers who spend their own resources to buy school supplies for their classrooms. TRD notes the creation of a deduction falls well short of compensating teachers for their expenses, assuming they spend up to \$1,000 annually. On average, teachers would save an estimated \$16 on their taxes in FY24 and \$32 for FY25 onwards as a result of the income deduction.

TRD also notes that, as this is a deduction from net income, it will not benefit taxpayers who are able to deduct or exempt most of their income through other statutes. For instance, it is not clear if any of the schoolteachers employed through tribal schools would fall under the qualifications for this deduction, but if they do, they are already able to exempt all their income if they work and live on tribal lands per Section 7-2-5.5 NMSA 1978. It is unclear if this bill would apply to part-time teachers or only to full-time teachers.

TRD notes other mechanisms outside of the tax code, such as sufficient funding for school districts and their associated schools, may be more appropriate in addressing the issue of teachers spending their own money on classroom supplies.

The tax deduction does not include a sunset date. TRD supports sunset dates for policymakers to review the impact of a deduction or other tax incentive before extending it if a sufficient timeframe is allotted for tax incentives to be measured.

The Public Education Department (PED) notes SB28 may enhance recruitment of New Mexico public school teachers. SB28 initiates substantial state income tax deductions for teachers that far exceed deductions they can claim on federal income tax returns. SB28's deduction limits exceed federal teacher school supply deductions at \$300.

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.

PED notes that in order to “ensure every child has well prepared, well supported, highly effective educators,” the PED Strategic Plan includes recruitment objectives to (a) increase the number of licensed teachers in New Mexico and (b) increase the number of teachers who represent culturally and linguistically diverse communities they serve.

ADMINISTRATIVE IMPLICATIONS

TRD suggests the deduction is the same amount for all tax years, which would facilitate the administration of the deduction and reduce the cost of implementation because it would require no additional implementation changes in tax year 2024.

TECHNICAL ISSUES

TRD notes the following technical issues:

The effective date is assumed to be June 16, 2023, because it is not clearly specified in the bill. The bill should specify the expenses need to be made from the effective date forward. The bill only stipulates the expense needs to be made in the same taxable year that the deduction is claimed.

The bill does not define “public school,” but it is assumed the definition in Section 22-1-2(L) NMSA 1978 applies.

This deduction appears to be for any teacher filing a return in New Mexico because there is no mention of one of the qualifications being teaching at a New Mexico public school. If it is intended to be only for teachers teaching in New Mexico, this may need to be specified in the bill.

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	✘	This bill was not vetted through an interim legislative committee.
Targeted Clearly stated purpose Long-term goals Measurable targets	✘ ✘ ✘	No stated purpose. No stated long-term goals. No measurable targets.
Transparent	?	This bill does not require annual reporting to interim legislative committees. The deduction may be included in TRD’s tax expenditure report.
Accountable Public analysis Expiration date	? ✘	Because there are no stated annual targets or goals, there is nothing from which to determine progress, effectiveness, or efficiency. There is no expiration date.
Effective Fulfills stated purpose Passes “but for” test	? ?	Because there are no stated annual targets or goals, there is nothing from which to determine effectiveness or passing of the “but for” test.
Efficient	✘	No desired results.
Key: ✓ Met ✘ Not Met ? Unclear		

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