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FISCAL IMPACT REPORT

SPONSOR:	Gorham	DATE TYPED:	02/10/00	HB	
SHORT TITLE:	Income Tax Credit			SB	417
				ANALYST:	Williams

REVENUE

Estimated Revenue		Subsequent	Recurring	Fund
FY00	FY01	Years Impact	or Non-Rec	Affected
	\$ (40,000.0)	\$ (43,000.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to HB 377 which provides a refundable personal income tax credit of \$50 per school-age child to New Mexico residents with adjusted gross income less than \$30,000

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

State Department of Education (SDE)

SUMMARY

Synopsis of Bill

The bill would authorize a credit for New Mexico taxpayers who are not claimed as a dependent up to \$500 for qualified educational expenditures made during the tax year. Married, filing separate would split the credit. The credit can only be deducted from the taxpayer's income tax liability.

Corporate income tax filers could claim a credit up to \$500 for qualified educational expenditures made during the tax year. This credit could only be deducted from corporate income tax liability.

Qualified educational expenditures includes payments made for tuition, fees, academic tutoring or special needs services for enrollment or attendance at an elementary or secondary school student at a public, private or religious school in New Mexico or the contribution of computer equipment or software to such school. In the case of the contribution, the school or other entity must certify and amount and purpose of payment.

The credit would begin with tax year 2000.

FISCAL IMPLICATIONS

TRD estimates general fund recurring loss at \$40,000.0 in FY01 and \$43,000.0 for a full year, which the Department characterizes as conservative. The analysis assumes enrollment-related expenses are claimed, and "hard-to-verify" expenses such as extra-curricular fees and special needs services are not claimed.

The fiscal impact is based on the following data:

- 330,342 New Mexico public school students for school year 1997/1998
- 125,000 New Mexico public school students in households capable of taking advantage of at least one-half of the credit (\$250) (derived from 1998 personal income tax data)
- 33,185 private school student for school year 1997/1998
- 6,666 home school students whose expenses are not creditable

The fiscal impact is based on the following assumptions:

- Average creditable expenses per public school student of \$250
- 30,000 (90%) New Mexico private school students in households capable of taking advantage of the entire credit (\$500)
- 1,700 New Mexico private school students (5%) in households capable of taking advantage of half the credit (\$250)
- 1,700 New Mexico private school students (5%), in households with expenditures and/or tax liability which makes them unable to claim the credit
- Only 0.05% of New Mexico personal income tax filers donate computers or software to a school and take the full \$500 credit
- 250 New Mexico businesses donate computers or software to a school and take the full \$500 corporate income tax credit

ADMINISTRATIVE IMPLICATIONS

TRD notes expenses other than tuition will be extremely difficult to verify. TRD recommends 5 percent of the approximately 150,000 claims be audited annually until error rates stabilize. This cost is estimated at 100.0 and includes 3 FTE.

TECHNICAL ISSUES

Because schools have no experience valuing computers, TRD would limit claims to IRS basis or fair market value.

TRD notes that businesses donating computers and supplies to schools can currently deduct the retail value of the donation for state and federal income taxes. This bill would a "double-dip".

Home school children are not included

Fees are not defined. .

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