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FISCAL IMPACT REPORT

SPONSOR: Thompson DATE TYPED: 01/25/01 HB 10

SHORT TITLE: Child Daycare Service Tax Credit SB

ANALYST: Eaton

REVENUE

Estimated Revenue		**Subsequent Years Impact**	**Recurring or Non-Rec**	**Fund Affected**
FY01	**FY02**			
	$ (1,320.0)	$ (1,440.0)	Recurring	General Fund
	$ (1,070.0)	$ (1,060.0)	Recurring	Local Govt.

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

This bill provides for a deduction from gross receipts to child daycare providers for services rendered pursuant to contract with the children youth and families department.

CYFD reported paying $68 million in daycare subsidies in FY 2000, primarily from the federal child daycare block grant. 1997 Economic Census reports that 58% of total payments for child daycare services were divided 58% for-profit/42% non-profit. The average tax rate for personal services is just over 5.9%, while almost 90% of personal services are performed within municipal areas.

Significant Issues

CYFD could adjust contract reimbursements to take credit for this deduction. That would give CYFD more money for subsidized daycare or a budget savings that could be reverted. Alternatively, the whole value of this tax savings could remain with the for-profit daycare centers.

FISCAL IMPLICATIONS

The full year estimated impact of this bill would reduce general fund revenue by $1,440.0 and reduce local government revenue by $1,060.0.

ADMINISTRATIVE IMPLICATIONS

Minimal administrative impact. Instructions and material for taxpayer seminars would have to be developed, as would training materials for auditors.

TECHNICAL ISSUES

TRD suggests the language in the bill be amended to read: "receipts received from the children, youth and families department pursuant to a contract with that department for providing child daycare services may be deducted from gross receipts." Without this clarification, it might be argued that the bill would make all receipts from parents and CYFD from providing care to both subsidized and unsubsidized children deductible.

OTHER SUBSTANTIVE ISSUES

The Taxation and Revenue Department (TRD) reports that the Children, Youth, and Families Department does not know the precise relative share of childcare subsidies flowing to for profit and non-profit providers. CYFD suggests that between 15% and 30% of childcare reimbursements are paid to for-profit providers. This is substantially lower than implied by the 1997 Economic Census of New Mexico.

Under this bill, amounts reimbursed by CYFD are deductible, but co-payments made by parents are not. Most parents participating in the childcare subsidy program are required to pay some fraction of the cost of their child's care. The percentage of costs payable by the family increases with family income, but total reimbursement to the provider (state share+family share) is the same regardless of family income. Providing a gross receipts tax deduction for the state's share but not the family's share of childcare costs makes providing care to some subsidized families more profitable than providing care to others.

TRD reports that virtually none of the tax benefits of this bill will accrue to parents. Limiting the deduction only to receipts received from CYFD for subsidized childcare means that the saving may accrue to CYFD, but, more likely, to the for-profit daycare center providers. TRD further reports that most licensed facilities that provide care to low-income children are non-profit and therefore do not pay the state gross receipts tax. The benefits of this legislation accrue to only about half the providers.

JBE/ar