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

SPONSOR: Duran DATE TYPED: 02/08/02 HB

SHORT TITLE: Daycare Services Gross Receipts Deduction SB 302

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	($1,359.6)	($1,483.2)	Recurring	General Fund
	($1,102.1)	($1,091.8)	Recurring	Local Government

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

This bill provides a gross receipts tax deduction for the receipts received pursuant to a contract with Children, Youth and Families Department (CYFD) for providing child daycare services.

Significant Issues

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.

FISCAL IMPLICATIONS

The fiscal impact figures are from a similar bill introduced during the 2001 legislative session (SB 97). The figures were revised three percent upward to derive the fiscal impact for FY 03. This bill will have a $1.36 million impact on the federal fund in FY02, and a full year recurring negative impact on the general fund is $1.5 million. The full year impact will reduce local government revenues by $1,091.8.

OTHER SUBSTANTIVE ISSUES

The Children, Youth and Families Department (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.

According to the Taxation and Revenue Department (TRD), the Children, Youth, and Families Department (CYFD) does not know the precise relative share of childcare subsidies flowing 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. 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.

According to TRD, 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.

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.

SN/ar