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## FISCAL IMPACT REPORT

SPONSOR Marquardt DATE TYPED 02/10/05 HB 233

SHORT TITLE Income Tax Credit For Certain School Tuition SB \_\_\_\_\_

ANALYST Padilla-Jackson

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(-\$37,500.0)	(-\$75,000.0)	Similar	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Public Education Department (NMPED)

No Response from Taxation and Revenue Department

### SUMMARY

#### Synopsis of Bill

House Bill 233 establishes a new section of the Income Tax Act to provide an income tax credit for tuition payments made by a taxpayer for a dependent who is enrolled in an accredited private elementary or secondary school in New Mexico. The tax credit can be claimed in an amount equal to the tuition paid during the taxable year, but not to exceed \$3 thousand for each dependent. This credit is refundable, so that if the credit exceeds the taxpayer's tax liability, the excess will be refunded.

The provisions of this bill are applicable to taxable years beginning on or after January 1, 2005.

#### Significant Issues

According to NMPED, a possible consequence of this bill might be that while it would provide a reduction of income taxes for taxpayers with a child or children in a private school, it might provide an incentive for parents to enroll their child or children in a private school thus reducing public school enrollment. It should be noted that the school choice provision of the Assessment

and Accountability Act [§22-2C-7(E)] favors a student's choice to attend a higher ranked public school if the student's public school fails to make Adequate Yearly Progress for two or more consecutive school years.

### **FISCAL IMPLICATIONS**

Since the official analysis from TRD was not received at the time this FIR was being written, LFC staff makes a preliminary estimate for the fiscal impact of this bill of \$75 million in FY06. According to NMPED 25,885 students were enrolled in private schools in New Mexico during the school year 2001-2002. Using this number, and assuming that the entire \$3,000 credit would be used, LFC staff calculates that the full-year impact would be \$75 million (approximately 25,000 enrolled dependents x \$3 thousand). This estimate is conservative given the fact that private school enrollment has probably increased since the 2001-2002 school year. LFC staff estimates an FY05 fiscal impact of half of the full-year impact, or \$37.5 million. The FIR fiscal impact will be revised upon the receipt of TRD's analysis, if their fiscal impact estimate is significantly different from the LFC estimate.

### **ADMINISTRATIVE IMPLICATIONS**

No analysis had been received from TRD at this time.

### **TECHNICAL ISSUES**

NMPED notes that Page 1, Line 22 of the bill uses the term "accredited" but does not indicate by whom these private schools would have to be accredited to qualify for the credit.

**OPJ/lg**