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FISCAL IMPACT REPORT

SPONSOR Zanetti DATE TYPED 3-11-2005 HB 1093

SHORT TITLE Home Kindergarten Prep Tax Credit SB _____

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(\$1,625.0)	(\$3,250.0)	(\$3,250.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)
 Public Education Department (PED)

SUMMARY

Synopsis of Bill

House Bill 1093 creates a \$500 per child refundable tax credit for parents who remain at home to prepare a child for kindergarten provided that:

1. the child is 4 years old and eligible to attend a state approved pre-kindergarten program;
2. the taxpayer identifies a pre-kindergarten curriculum, presents it to the public education department for approval and receives an approving certificate from the children, youth and families department;
3. the taxpayer certifies that training was provided;
4. the taxpayer providing the training was the child's parent, grand parent or legal guardian (with whom the child resides or who shares custody of the child).
5. the taxpayer's adjusted gross income does not exceed \$50 thousand, or for a husband and wife filing joint does not exceed \$75 thousand.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) estimates that the proposed credit would reduce state general fund revenues by \$3.25 million in FY07, the first full-year of the credit. The FY06 estimate is half the full-year estimate because the applicability date falls half way through the fiscal year.

The estimate assumes that parents of 6,500 four year olds (approximately 25 percent of all 4 year olds in New Mexico) would claim the credit. Multiplying 6,500 four-year olds by \$500 yields the estimated \$3.25 million general fund revenue loss.

TRD notes that currently home schooled children represent about 15 percent of children enrolled in New Mexico schools. They also note that if participation in the program was limited to the 15 percent average, the fiscal impact would be about \$2 million. Note: Given the tax subsidy provided through the credit, it seems reasonable to assume a higher than average participation rate, especially considering that these are very young children.

ADMINISTRATIVE IMPLICATIONS

TRD submitted this administrative implication report:

Significant revisions of forms would be required to accommodate the growing number of refundable credits, as would revision of instructions and publications. The measure would also require creation of a claim form and instructions. Approximately 1/2 FTE would be needed to manually review the credits.

The Public Education Department (PED) also reported an administrative impact, but noted that since they cannot estimate participation, they are unsure about their capacity to comply with the administrative requirement with existing staff.

TECHNICAL ISSUES

TRD's analysis included this technical issue:

As written, the measure would allow taxpayers filing separate returns to claim the credits in cases where each taxpayer's adjusted gross income is as high as \$50,000. The appropriate stipulation should probably be that, in the case of separate returns, each taxpayer could claim half a credit assuming the associated AGI did not exceed \$75,000. The measure does not contain provisions for apportioning credits in cases where taxpayers earn income from within and outside New Mexico. The bill should also specify the upper age limit in order to be considered a pre-kindergarten child. Presumably, a taxpayer could claim both the pre-kindergarten home schooling credit and also claim the credit for expenses for dependent child day care available under § 7-2-18.1, because the bill is silent regarding the dependent child day care credit. It may be possible for a taxpayer to qualify for both these credits. If the intent is not to allow the two credits to be claimed simultaneously, the bill should be modified accordingly.

OTHER SUBSTANTIVE ISSUES

PED noted that the bill's provisions relate to their core performance measures related to encouraging parents to voluntarily introduce four years old to pre-kindergarten programs, but not to the department's preferred method: quality, licensed preschool programs.

BT/yr