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FISCAL IMPACT REPORT

ORIGINAL DATE 2/16/07

SPONSOR Park LAST UPDATED _____ HB 504

SHORT TITLE Higher Ed Expenses Income Tax Credit SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(\$37,000.0)		Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
Higher Education Department (HED)

SUMMARY

Synopsis of Bill

House Bill 504 provides a credit of \$500 against personal income tax liability for taxpayers who paid tuition or fees to a public post-secondary educational institution or private accredited college. The credit is not refundable meaning it cannot exceed the taxpayer's liability.

FISCAL IMPLICATIONS

TRD calculates the fiscal impact as though it only went to full time students:

The \$37 million recurring impact shown above assumes \$125 of the maximum \$500 credits are taken for tuition credits for 50,400 students, while the full \$500 credits are taken for tuition payments for 61,600 students. According to a document¹ published by the New Mexico Higher Education Department, approximately 112,000 or 88 percent of New Mexico's approximately 128,000 attendees of New Mexico post-secondary

¹ Please see: "The Condition of Higher Education in New Mexico –2005-2006" on the Public Education Department website, pages 18 and 69.

institutions are New Mexico residents. Wording of the proposed legislation would allow the credits to be taken by “individuals” hence a family with two children in college would be able to take \$1,000 in credits. Of the approximate 896,000 New Mexico personal income tax returns, approximately 593,000 report taxable income greater than 0. The estimate above assumes this is the group that would take the credits. Within the group, approximately 45 percent, or 50,400 report tax obligations between 0 and \$500, and thus would be able to claim an average of approximately \$125 in credits. 55 percent would be able to claim \$500 in credits.

SIGNIFICANT ISSUES

The credit has a very wide scope. As written, it could be used by someone who took one class at a community college. According to a recent Santa Fe Community College catalog, a class on the pastel landscape at ghost ranch has a fee of \$69. Since the credit is set at \$500 and goes to taxpayers who paid tuition or fees on behalf of themselves or a dependent, a taxpayer signing up for this class would earn \$431 by signing up for the class. TRD notes that fees at a golf course could also plausibly make a taxpayer eligible for the credit.

HED:

Currently, families have two federal education tax benefits available to them, the Hope Scholarship and the Lifetime Learning Credit.

Hope Scholarship

The Hope Scholarship provides a \$1,650 tax credit per student per year for higher education expenses during the first two years of postsecondary education. The amount increased in 2006. Previously it was up to \$1,500. The amount of the Hope Scholarship is increased to \$3,300 for Gulf Opportunity Zone Students. The amount of the credit is 100% of the first \$1,100 of qualified tuition and related expenses per student and 50% of the second \$1,100 of qualified tuition and related expenses. The taxpayer must list the student as an exemption on their income tax return and the expenses must have been paid by the taxpayer or by the student. Scholarships and financial aid do not count as qualified tuition and related expenses paid by the taxpayer.

Lifetime Learning Tax Credit

The Lifetime Learning Tax Credit provides a tax credit of up to \$2,000 per taxpayer for education expenses. The amount of the credit is equal to 20% of the first \$5,000 of qualified tuition and related expenses paid by the taxpayer. Starting in 2003, the \$5,000 limit was increased to \$10,000. Thus the credit is up to \$1,000 through the year 2002 and \$2,000 thereafter. In 2006 the maximum lifetime learning tax credit increased to \$4,000 and 40% for gulf opportunity zone students.

Qualified tuition and related expenses include expenses for any course of instruction at an eligible educational institution to acquire or improve job skills. This means that the credit may be used for part-time study, not just students enrolled at least half-time in a degree program. Unlike the Hope Scholarship, the Lifetime Learning tax credit may be claimed for an unlimited number of years.

ALTERNATIVES

To limit the scope of the credit, language referring to students enrolled full time in a degree program should be added. Also, the credit could be limited by allowing the credit only for eligible expenditures up to \$500.

NF/nt