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FISCAL IMPACT REPORT

ORIGINAL DATE 02/10/09

SPONSOR King LAST UPDATED _____ HB 344

SHORT TITLE Dependent Child Day Care Expenses Tax Credit SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	(\$2,900.0)	(\$6,300.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Children Youth and Families Department (CYFD)

SUMMARY

Synopsis of Bill

House Bill 344 modifies the child care tax credit by conforming it more closely to federal IRS definitions, clarifying the minimum annual income, increases the credit and phases it out with income.

Under current law, the credit is equal to 40 percent of actual compensation paid to a caregiver up to \$480. HB344 allows a credit for 40 percent of expenses for each qualified dependent equal to \$720 with a maximum of \$1,800 in 2009 and \$960 with a maximum of \$2,400 in 2010 and later. First year and full time residents with incomes less than twice the annual minimum wage, defined as adjusted gross income less than the state minimum wage times 2,080 hours or \$31,200, qualify for the full credit. The credit phases out after \$31,200 by 20 percent for each additional \$1,000 income until \$35,200.

FISCAL IMPLICATIONS

In 2010, the credit will cost an estimated \$6.2 million more than the current credit. Due to the phase-in of the expanded credit, 2009 will only cost half that much. Since it is a credit due at the

time of filing, all of the impact is in the fiscal year following the tax year. Under current law, the credit cost approximately \$3.3 million and is claimed by 8,600 taxpayers. HB 344 will both increase the number claiming the credit and increase the amount of credit received.

TRD:

A comparison of the current and proposed child day care credit and the corresponding federal credit (the child and dependent care tax credit) are shown in the table on the following page. Distributional impacts of the bill (when fully in effect starting in 2010) are shown in the table below.

Income	Current Law			Proposal			Change from Current Law		
	Number Claiming Credit	Total Amount of Credit (\$ 000)	Average Amount of Credit (\$)	Number Claiming Credit	Total Amount of Credit (\$ 000)	Average Amount of Credit (\$)	Number Claiming Credit	Total Amount of Credit (\$ 000)	Average Amount of Credit (\$)
Under \$10,000	860	290	340	860	570	660	-	280	320
\$10,000 - \$20,000	3,450	1,270	370	3,450	2,620	760	-	1,350	390
\$20,000 - \$30,000	4,260	1,750	410	4,260	4,940	1,160	-	3,190	750
\$30,000 - \$40,000	30	10	330	3,750	1,390	370	3,720	1,380	40
Total	8,600	3,320	390	12,320	9,520	770	3,720	6,200	380

Source: TRD

SIGNIFICANT ISSUES

According to CYFD, in rural areas of New Mexico, child care expenses encompass approximately 25% of household expenses. In the Albuquerque area, child care costs constitute on average 21% of the household expenses (Basic Family Budget Calculator: Economic Policy Institute). If enacted, this bill increases the state tax credit for taxpayers with child care expenses who are employed or seeking gainful employment and increases the income range for claiming the child care credit, thereby making it easier for families to pay childcare expenses. This bill also takes into account federal credit for child and dependent care, ensuring that taxpayers are not being reimbursed twice for the same expense.

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc

**Major Features of the
New Mexico Child Day Care Credit and the
Federal Child and Dependent Care Tax Credit (CDCTC)**

Feature	New Mexico Child Day Care Credit		Federal CDCTC
	Current Law	Proposal	
Eligibility	Children under age 15	Children under age 15	Children under age 13 Disabled person (including spouse)
Income Limit	<u>Twice the federal minimum wage:</u> 2009: \$7.25 → \$30,160 (of MGI*) (2 x \$7.25 x 2,080hrs)	<u>Twice the NM minimum wage:</u> 2009: \$7.50 → \$31,200 (of AGI**) (2 x \$7.50 x 2,080hrs)	None
Income Phase Out	None (“cliff”)	Start: \$32,000 End: \$36,000	N/A (no income limit)
Expense Limit	\$8 per day per child \$1,200 for each child \$3,000 for all children Earned income	\$2,400 for each child \$6,000 for all children (2010 limits) Earned income	\$3,000 for one child \$6,000 for two or more children Earned income
Qualified Expenses reduced by	Only expenses paid out-of-pocket qualify	Only expenses paid out-of-pocket qualify	Employer paid or provided benefits and tax favored child care expenses
Credit %	40%	40%	<u>Sliding scale based on AGI**:</u> 35% for income below \$15,000 20% for income above \$43,000
Credit Reduced by	Federal CDCTC taken	Federal CDCTC taken	None
Refundable	Yes	Yes	No

* MGI is “modified gross income” which is a broad measure of income used in the New Mexico personal income tax for certain credits and rebates.

** AGI is “adjusted gross income” as defined for federal income tax purposes.

Source: TRD

NF/svb