

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website ([www.nmlegis.gov](http://www.nmlegis.gov)). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

ORIGINAL DATE 2/10/15

SPONSOR Maetz LAST UPDATED \_\_\_\_\_ HB 293

SHORT TITLE Increase Working Families Tax Credit SB \_\_\_\_\_

ANALYST van Moorsel

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
\$0.0	(\$13,652.5)	(\$28,206.1)	(\$29,165.1)	(\$30,215.0)	Recurring	General Fund

(Parenthesis ( ) indicate revenue decreases

Duplicates SB 261 – Increase Working Families Tax Credit

### SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

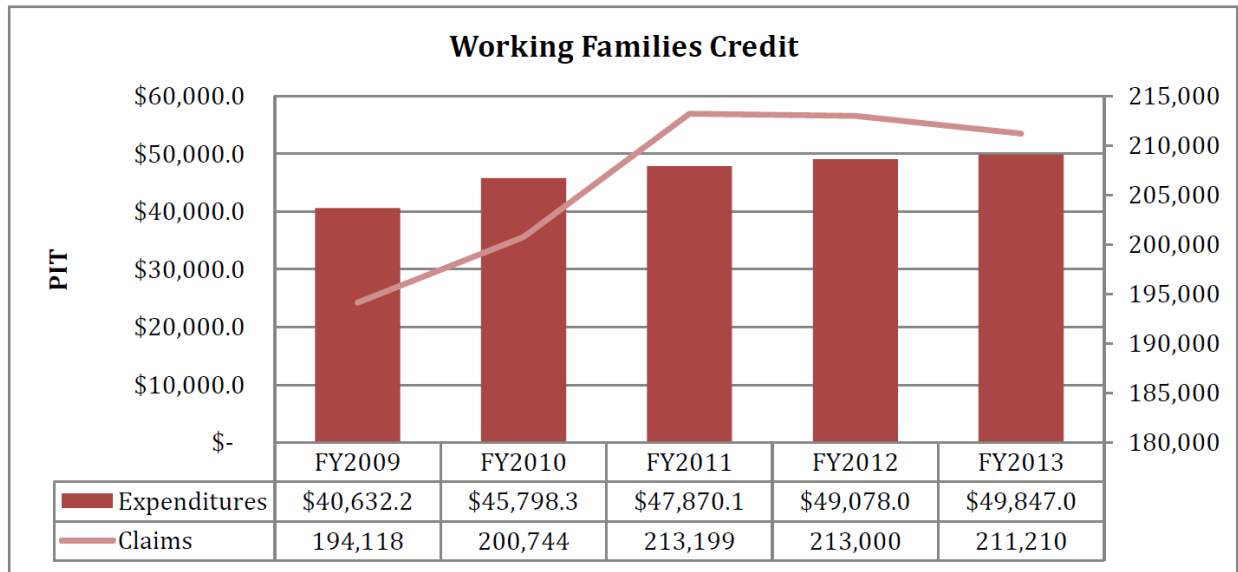
House Bill 293 amends the Income Tax Act to phase in an increase in the Working Families Tax Credit.

Current law provides the WFTC may be claimed in the amount of 10 percent of the federal Earned Income Tax Credit. The bill proposes to increase the credit as follows:

- Tax Year 2015: WFTC is 12.5 percent of federal EITC;
- Tax Year 2016 and after: WFTC is 15 percent of federal EITC.

### FISCAL IMPLICATIONS

The 2014 TRD Tax Expenditure Report provides the following history of the Working Families Tax Credit (WFTC), which shows that in FY13 211 thousand WFTC claims totaled \$49.8 million in foregone personal income tax (PIT revenue):



Assuming February 2015 consensus PIT growth rates, the estimated general fund impact can be estimated by comparing projected WFTC claims under current law with projected WFTC claims at the higher rate proposed in the bill:

(\$ thousands)	FY15	FY16	FY17	FY18	FY19
WFTC (current law)	(\$52,814.3)	(\$54,610.0)	(\$56,412.1)	(\$58,330.1)	(\$60,430.0)
WFTC (Proposed)	(\$52,814.3)	(\$68,262.5)	(\$84,618.2)	(\$87,495.2)	(\$90,645.0)
Difference	\$0.0	(\$13,652.5)	(\$28,206.1)	(\$29,165.1)	(\$30,215.0)

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the revenue reductions pursuant to this bill revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure’s fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

**SIGNIFICANT ISSUES**

The last increase to the WFTC occurred in 2008, when the WFTC was increased from 8 percent to ten percent of the federal EITC.

The state-level WFTC is based on the federal Earned Income Tax Credit for low-income working families. The EITC offsets some or all of those families’ federal income taxes and in many cases provides a supplemental source of income to help offset other taxes, including sales and payroll taxes. Since enactment in 1975, Congress has expanded the federal EITC several

times. In tax year 2012, the EITC provided \$63 billion in reduced or eliminated tax liability and cash refunds to more than 27 million low-income workers and their families, with an average EITC amount of \$2,300.

In its report issued March 31, 2014, the Inspector General for Tax Administration reported that for federal fiscal year 2013 the Internal Revenue Service (IRS) improper payment reporting continued to not comply with Improper Payments Elimination and Recovery Act. The Office of Management and Budget has declared the Earned Income Tax Credit (EITC) Program a high-risk program that is subject to reporting in the Department of the Treasury Agency Financial Report. The IRS estimates that 22 to 26 percent of EITC payments were issued improperly in Fiscal Year 2013. The dollar value of these improper payments was estimated to be between \$13.3 billion and \$15.6 billion.

Extrapolating to New Mexico, assuming that approximately 25 percent of New Mexico WFTC payments are improper would mean that New Mexico improperly paid an estimated \$12.5 million in WFTC improperly in FY13.

Does the bill meet the Legislative Finance Committee tax policy principles?

- 1. Adequacy:** Revenue should be adequate to fund needed government services.
- 2. Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- 3. Equity:** Different taxpayers should be treated fairly.
- 4. Simplicity:** Collection should be simple and easily understood.
- 5. Accountability:** Preferences should be easy to monitor and evaluate

PvM/je/bb