F I S C A L   I M P A C T   R E P O R T

SPONSOR Cervantes **ORIGINAL DATE LAST UPDATED** 2/17/15 **HB**

SHORT TITLE Student Loan Interest Tax Deduction **SB** 349

ANALYST Dorbecker

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
	($1,000.0)	($1,030.0)	($1,060.0)	($1,090.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

Duplicates SB 373

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 349 creates a new section of the Income Tax Act, referred to as the student loan interest deduction. The deduction allows a taxpayer, who is not a dependent of another, to claim a deduction from net income on an amount equal to the difference between student loan interest paid in a taxable year and the federal student loan interest deducted in that taxable year. The deduction is capped at two thousand dollars ($2,000).

The purpose of the deduction is to accelerate the repayment of student loan debt owed by taxpayers.

The bill includes reporting requirements. The Taxation and Revenue Department (TRD) is required to compile an annual report beginning in 2017 that includes the number of taxpayers claiming the deduction, the aggregate amount of deductions claimed and any other information necessary to evaluate the effectiveness and cost of the deduction.

The bill requires TRD to compile and present the annual report to the appropriate legislative committees to review the effectiveness and cost of the deduction and to determine whether the deduction is performing the purpose for which it was created

There is no effective date of this bill. It is assumed the new effective date is 90 days after this session ends. The provisions of the bill apply to taxable years beginning on or after January 1, 2015.

FISCAL IMPLICATIONS

According to TRD, the fiscal impact of the bill was determined using average 2013 student debt data published by the Institute for College Access and Success. According to the report, the average student debt amount in New Mexico is about $18,656. State by state information indicates that seven in 10 seniors (69 percent) who graduated from public and nonprofit colleges in 2013 had some form of student loan debt, with an average amount of $28,400 per student.

TRD notes, the data represents a two percent increase from the average 2012 debt of public and nonprofit graduates. According to 26 U.S.C. Section 221, the state deduction is claimed from net income in an amount equal to the amount of student loan interest paid in a taxable year less the amount of federal student loan interest deducted in that taxable year. Since the average student loan in New Mexico is about $18,656, the corresponding average interest is less than $2,500 meaning that, on average, most students in the state would not qualify for the state deduction.

To utilize the deduction, a student's debt would need to be greater than $53,700 and for a maximum deduction of $2,000 it would need to be at least $96,600. In its analysis, TRD used a national average of 4.66 percent interest rate to establish the threshold of the impact. TRD recognizes there will be a smaller number of students in the state with debts between $53,700 and $96,600. However, according to the New Mexico Department of Higher Education (NMHED), the department does not collect student loan information.

For the fiscal impact, TRD assumed 500 or 5 percent of the total graduates (bachelor and above) would qualify for the deduction at the maximum benefit of $2,000, for an annual impact of approximately $1 million. TRD then grew that estimate at a rate of 3 percent per year based on the historical growth rate.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures 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

TRD supports the bill since the federal government already provides for such a deduction and because the rate of student loan defaults in New Mexico has been increasing[1].

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

TRD reports the bill would have a minimal impact. Necessary changes to GenTax and Taxpayer Access Point documents, as well as their configurations can be incorporated into the annual tax updates. Forms, instructions and publications will need to be changed as well.

DUPLICATION

The bill is a duplicate of SB 373, student loan interest income tax deduction.

TECHNICAL ISSUES

The bill does not contain a sunset date. The LFC recommends adding a sunset date.

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

HD/je

[1] Santa Fe New Mexican. November 8 and November 11, 2014.