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FISCAL IMPACT REPORT

ORIGINAL DATE

SPONSOR Brandt/Harper **LAST UPDATED** 02/26/15 **HB** _____

SHORT TITLE Teacher School Supply Purchase Tax Deduction **SB** 612

ANALYST Dorbecker

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
	(\$440.0)	(\$880.0)	(\$880.0)	(\$880.0)	Recurring	General Fund

Parenthesis () indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$1.4	\$0.0	\$1.4	Nonrecurring	TRD Operating

Parenthesis () indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Responses Not Received From

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 612 bill adds a new section to the Income Tax Act to create a deduction from net income of a public school teacher for the cost of school supplies purchased in a taxable year. The deduction is not to exceed five hundred dollars (\$500) for the taxable year beginning on January 1, 2015; and not to exceed one thousand dollars (\$1,000) for taxable years beginning on or after January 1, 2016.

There is no effective date of this bill. It is assumed that 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

Analysis from TRD reports that according to the New Mexico Public Education Department, there are approximately 22,000 public school teachers in New Mexico. Assuming all of the public school teachers claim the deduction at the maximum allowed amount of \$500 for tax year 2015 and \$1,000 for tax year 2016 and after, TRD estimates the bill would have a negative revenue impact of about \$440 thousand in FY 2016. The department used the average tax rate of 4 percent to estimate the total deductions. TRD notes that since the bill is limited to “public school teachers” the impact of allowing all New Mexico school teachers to claim the deduction has not been estimated.

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 reports there may be some conflict and duplication of credits allowed for the same expenses with the federal educator expense deduction. This federal deduction has been extended through the end of the 2014 tax year, and may potentially be extended into 2015 by federal legislation.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill 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 estimates a minimal impact from the bill to the department’s revenue processing division. Revisions to the forms, instructions and publications related to the personal income tax program will be required with minimal incremental cost with the annual renewal of the program. Rules will need to be developed regarding proper documentation for the deduction.

There’s also a minimal impact to TRD’s information technology (IT) division. GenTax changes would require about 200 hours with an estimated cost of \$1,400. Changes to GenTax and taxpayer access point documents and configuration changes would be required but they could be

completed as part of the annual update.

TECHNICAL ISSUES

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

OTHER SUBSTANTIVE ISSUES

Because the bill provides a deduction for the cost of school supplies purchased by a public school teacher, TRD states the bill appears to be appropriate given teachers routinely have out of pocket expenses for supplies needed by the students.

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

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