FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Brandt	**ORIGINAL DATE**	1/29/24
SHORT TITLE	Teacher-Purchased Supplies Tax Credit	**BILL NUMBER**	Senate Bill 171
		ANALYST	Faubion

REVENUE*
(dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
PIT	-	($325.0)	($650.0)	($650.0)	($650.0)	Nonrecurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	-	$12.2	-	$12.2	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From
Taxation and Revenue Department (TRD)

Agency Analysis was Solicited but Not Received From
Public Education Department (PED)

SUMMARY

Synopsis of Senate Bill 171

Senate Bill 171 (SB171) creates an income tax deduction for school supplies purchased by a public school teacher of up to $500 in tax year 2024 and $1,000 in tax years 2025 through 2028. The school supplies must be used for educational uses in the teacher's classroom and by the teacher's students.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or May 15, 2024, if enacted. The tax credit applies to tax years 2024 through tax year 2028.

FISCAL IMPLICATIONS

The proposed bill provides a personal income tax (PIT) deduction to all public school teachers who spend their own money on classroom supplies in New Mexico. According to the last report of the National Center for Educational Statistics, 94 percent of all public school teachers in the United State have spent some of their own money on classroom supplies without reimbursement. The Taxation and Revenue Department (TRD) applied that percentage to the estimated 23,094 public school teachers in New Mexico during the academic year 2022-2023 to calculate that approximately 21,708 teachers might claim the deduction. The lost revenue to the general fund is based on wage of a $63,580, the estimated average wage of a New Mexico public school teacher in the academic year 2022-2023, and an effective tax rate of 3 percent for a taxable income between $50 thousand and $75 thousand.

The fiscal impact increases from FY25 to FY26 because the bill proposes a deduction limited to $500 for tax year 2024 and $1,000 for tax year 2025 and onwards. The impact is estimated to be constant. The analysis is made using the National Education Association's *Annual Rankings of the States 2022* and *Estimates of School Statistics 2023* and remains flat. Also, it is assumed the mean wage for teachers will stay in the specified range above for the coming years, and therefore, no significant changes in the effective tax rate are expected.

This bill creates or expands a tax expenditure. 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 notes the following:

> The bill's purpose appears to be compensating teachers who spend their own resources to buy school supplies for the classrooms. As noted in the fiscal impact methodology, nationwide, 94 percent of teachers spend their own money to support the needs of their classroom by buying supplies. According to the National Center for Education Statistics, New Mexico schoolteachers spent an average of $494, and 8.5 percent spent more than $1,000 in the 2020 to 2021 academic school year. The bill's creation of a deduction falls well short of compensating teachers for their expenses, assuming they spend $500 or up to $1,000 annually. Deductions exclude the deducted amount from taxable income, no longer exposing that income to the teacher's effective tax rate (estimated at 3 percent). On average, the estimated state personal income tax reduction during FY2025 per teacher is only $15 and $30 for FY26 onwards.
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> Also, as this is a deduction from net income, it will not benefit taxpayers who are able to deduct or exempt most of their income through other statutes. For instance, it is not clear if any of the schoolteachers employed through tribal schools would fall under the qualifications for this deduction, but if they do, they are already able to exempt all their income if they work and live on tribal lands per Section 7-2-5.5 NMSA 1978.

This proposed deduction appears to be legitimizing in the tax code the use of teacher's personal resources to support classroom supply needs. It is generally recognized that teachers' salaries nationwide are not sufficient given the relative importance of their jobs, and it is not ideal that they are spending from their own limited salaries to support their teaching. Other mechanisms outside of the tax code such as sufficient budget funding for school districts and their associated schools may be more appropriate in targeting this public education policy issue.

Preferential treatment of taxpayers based on profession is seen as eroding horizontal equity in state income taxes. Taxpayers in similar economic circumstances are no longer treated equally, with teachers receiving a benefit not available to those outside the profession.

The tax deduction does not include a sunset date. Tax and Rev supports sunset dates for policymakers to review the impact of a deduction or other tax incentive before extending it if a sufficient timeframe is allotted for tax incentives to be measured.

Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 25 percent of the state's recurring general fund revenue. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, that impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of taxable income and ties to other statues in the federal tax code. This is referred to as "conformity" to the federal tax code. The PIT is an important tax policy tool that has the potential to further both horizontal equity, by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on taxpayers' ability to pay.

PERFORMANCE IMPLICATIONS

TRD notes the purpose of doubling the deduction amount from tax year 2024 to tax year 2025 is unclear. TRD suggests the deduction be the same amount for all tax years, which would simplify cost of implementation because it would require no additional implementation changes in tax year 2025.

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 credit and other information to determine whether the credit is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

TRD will make information system changes and update forms, instructions, and publications. This bill will have a low impact of approximately 220 hours, or about one month, for an estimated staff workload cost of $12,210. The implementation will be included in the annual tax year changes.

TECHNICAL ISSUES

TRD notes the following technical issues:

On Page 2, line 22, the bill defines a "public school teacher" as a teacher licensed under the Public School Code. Section 22-1-2(Z) NMSA 1978 of the Public School Code defines a "teacher" as a licensed teacher whose primary duty is classroom instruction or the supervision, below the school principal level, of an instruction program or whose duties include curriculum development, peer intervention, peer coaching or metering or serving as a resource teacher for other teachers. The bill is not clear if the intent was to provide the deduction to individuals of an instruction program (defined in Section 22-1-2(F) NMSA 1978 as counselors, social workers, nurses, speech pathologists, etc. Therefore, if the sponsor's intent is to allow the deduction to licensed teachers only, the definition of licensed schoolteacher may need to be revised to limit the scope.

The bill does not define "public school", but it is assumed that the definition in Section 22-1-2(L) NMSA 1978 applies. Tax & Rev recommends a specific referral to that definition.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

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

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
Vetted: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.	✗	**This bill was not heard at an interim committee.**
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✗	There are no stated purposes, goals, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	This credit is reported in the Tax Expenditure Report.
Accountable: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. Public analysis	✓	There is a sunset and public reporting requirements.

Expiration date		
Effective: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure. Fulfills stated purpose Passes "but for" test	?	There are no stated goals by which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.		
Key: ✓ Met ✗ Not Met ? Unclear		

JF/rl/hg/ss