

**NOTE: As provided in LFC policy, this report is intended only for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used in any other situation.**

**Only the most recent FIR version (in HTML & Adobe PDF formats) is available on the Legislative Website. The Adobe PDF version includes all attachments, whereas the HTML version does not. Previously issued FIRs and attachments may be obtained from the LFC's office in Suite 101 of the State Capitol Building North.**

## FISCAL IMPACT REPORT



SPONSOR: Beam DATE TYPED: 02/09/02 HB 241

SHORT TITLE: Child & Dependent Care Income Tax Credit SB \_\_\_\_\_

ANALYST: Neel

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	(\$5,800.0)		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases) In thousands

### SOURCES OF INFORMATION

LFC files

No Response

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

This measure would repeal the current refundable child care credit (Section 7-1-18.1 NMSA 1978) and replace with a new refundable credit equal to 100 percent of the federal dependent care credit for taxpayers with adjusted gross incomes of up to \$32,000. The credit would be reduced by approximately \$8 for every \$100 by which AGI exceeds \$32,000, reaching zero once AGI reaches \$44,500. The current credit, as described below, is not provided to taxpayers with modified gross incomes over \$24,424.

The federal credit totals \$960 based on claims for two children and earned income in excess of \$28,000. It has no upper limit -- a family earning, for example, \$150,000 annually would qualify for the \$960. It does increase to a maximum of \$1,440, however for AGI of less than \$28,000 -- as described below. Hence, assuming taxpayers possess sufficient qualifying expenses and number of dependents, the federal credit ranges from \$960 to \$1,440, but is not refundable, i.e., the maximum amount of credit claims is limited to the taxpayer's tax liability.

The proposed credit would mirror the federal credit except 1) the phase out that begins at \$32,000, and 2) the fact that under the new system, credits would be refundable, whereas the federal credits are not. The proposed credits are based on federal adjusted gross income; under the current system, credits are based on modified gross income (MGI) -- a broader measure of income than AGI. The proposed credit also would be adjusted in proportion to changes in the consumer price index.

### **FISCAL IMPLICATIONS**

TRD notes that the fiscal impact is based on two primary sources of information. The *Statistics of Income Bulletin* published by the Internal Revenue Service provides child care credit amounts claimed by New Mexico residents on their federal tax returns. These data were used to extrapolate the amount of refundable credits claimed by those taxpayers with some federal tax liability, subject to the phase-out of the credit as applied under the bill. The data are also adjusted to reflect non-residents. The second source is the state's personal income tax returns, which provide information about the child care credit that is currently available under state law. It is assumed that all of the individuals currently claiming the state credit will also claim the new credit. Thus, the savings from repeal of the present law credit will be offset by the new credits provided to these households.

### **TECHNICAL ISSUES**

TRD notes the following:

Paragraph C, Section 1 of the proposal (page 2) states that: "No taxpayer may take a credit pursuant to this section if the taxpayer is eligible for child care assistance pursuant to the New Mexico Works Act and has failed to accept the assistance available under that act". This section would require CYFD to keep records of taxpayers who failed to accept assistance and that information would have to be furnished to TRD. The confidentiality statute would not allow TRD to make inquiries about taxpayers from CYFD.

Additional descriptions of who qualifies and what childcare expenses will qualify will help to identify whether the Legislature wants to allow the credit to non-residents and/or for childcare expenses provided outside of NM.

### **OTHER SUBSTANTIVE ISSUES**

TRD notes that unlike the child care credit under present law, the proposal does not require a taxpayer to reduce the amount claimed on their state return by the amount claimed on their federal return. Thus, a taxpayer could "double dip" by claiming credits for the same expenses on both tax returns.

SN/ar