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FISCAL IMPACT REPORT

ORIGINAL DATE 1/29/07
 LAST UPDATED 3/6/07 HB CS/117/aHEC/aHTRC

SPONSOR HEC

SHORT TITLE Teacher Tax Credit for Classroom Supplies SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
		(\$4,600.0)	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
 NM Taxation and Revenue Department (TRD)
 Quality Education Data (market data company)

Responses Received From
 NM Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amended the HEC substitute for House Bill 117 changing the sunset date to January 1, 2009, and shifting the first year the credit is allowed to tax year 2008.

Synopsis of HEC Amendment and Substitute

The House Education Committee substituted HB117 and amended it. The substitute provides a credit to licensed teachers in New Mexico who file a tax return for expenditures on appropriate classroom supplies that are directly related to student learning. The credit varies by income (table 1) and can be carried forward for four consecutive years.

Table 1: Schedule of credits

Modified Gross Income	Maximum Credit
\$ 71,000	\$ 250
72,000	220
73,000	150
74,000	100
75,000	50

One of the main differences between the substitute and the original is the change from refund ability to carry forward. This change means that the credit will not exceed the tax liability of the teacher in any year. Over four years, there should be sufficient tax liability to claim the full credit. The maximum credit, \$250, is also half of the original bill credit. The scope of expenditures is also more refined in the substitute which targets the credit to those expenditures directly related to teaching. The Taxation and Revenue Department will be charged with defining what supplies are eligible.

An important feature of the substitute is the use of modified gross income to determine the credit. Modified gross income is defined in Section 7-1 NMSA 1978:

"modified gross income" means all income of the taxpayer and, if any, the taxpayer's spouse and dependents, undiminished by losses and from whatever source, including: (1) compensation; (2) net profit from business; (3) gains from dealings in property; (4) interest; (5) net rents; (6) royalties; (7) dividends; (8) alimony and separate maintenance payments; (9) annuities; (10) income from life insurance and endowment contracts; (11) pensions; (12) discharge of indebtedness; (13) distributive share of partnership income; (14) income in respect of a decedent; (15) income from an interest in an estate or a trust; (16) social security benefits; (17) unemployment compensation benefits; (18) workers' compensation benefits; (19) public assistance and welfare benefits; (20) cost-of-living allowances; and (21) gifts;

"modified gross income" excludes:

(1) payments for hospital, dental, medical or drug expenses to or on behalf of the taxpayer; (2) the value of room and board provided by federal, state or local governments or by private individuals or agencies based upon financial need and not as a form of compensation; (3) payments pursuant to a federal, state or local government program directly or indirectly to a third party on behalf of the taxpayer when identified to a particular use or invoice by the payer; or (4) payments pursuant to Sections 7-2-14, 7-2-18, 7-2-18.1 and 7-3-9 NMSA 1978;

The credit is effective for tax years 2007 to 2011.

Synopsis of Original Bill

House Bill 117 would provide a refundable tax credit to licensed public school teachers in New Mexico who file a tax return and are not a dependent of another individual for expenditures for supplies used in the teacher's classroom.

This credit would be effective for tax years beginning January 1, 2007.

FISCAL IMPLICATIONS

The HTRC amendment changes the first year of claims to tax year 2008 rather than 2007. The impact now begins in FY09 and ends FY10.

According to the NM Public Education Department 2004 annual report, there were estimated to be 21,000 teachers in NM public schools. Using a growth rate of 1.4 percent, it is estimated there will be 22,000 teachers in 2007. Assuming that 20 percent of teachers are married and will qualify only for the \$50 credit due to the combined income of the household and the remaining 75 percent are single and qualify for the maximum credit, the fiscal impact is \$4.6 million in tax year 2008. For most teachers, the credit would be less than their tax liability and only a small group of teachers would need to carry the credit forward.

According to Quality Education Data (QED), a marketing agency, 45 percent of teachers in their market trends survey report spending over \$500 on their classrooms. The average reported expenditure in the survey was \$475 per year.

SIGNIFICANT ISSUES

There is considerable evidence of teachers using their own funds to purchase materials that they consider necessary for teaching, such as art supplies and project materials. Many states have taken steps to provide tax breaks or, in some cases, cash payments or gift cards to teachers recognizing these expenditures. The federal government allowed a teacher to deduct up to \$250 from their income but that deduction expired with the 2006 tax year and so teachers can no longer deduct these expenses.

ADMINISTRATIVE IMPLICATIONS

The NM Taxation and Revenue Department (TRD) should be able to incorporate this provision in time for the 2007 tax forms without additional resources.

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