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FISCAL IMPACT REPORT

ORIGINAL DATE 2/14/07

SPONSOR Komadina LAST UPDATED _____ HB _____

SHORT TITLE Home Schooling Income Tax Deduction SB 781

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(990.0)		Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		37.0	37.0	74.0	Recurring	PED

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
Public Education Department

SUMMARY

Synopsis of Bill

Senate Bill 781 provides a deduction from net income for the purposes of calculating income tax for expenses attributable to tutoring or home schooling. The deduction is allowed for taxpayers whose dependent attended a public school and was also tutored on a subject included in the public school curriculum, whose dependent was home schooled, and whose dependent was or would have been claimed as a dependent on the resident's federal income tax return.

The effective date is January 1, 2007, and so is applicable to the 2007 tax year.

FISCAL IMPLICATIONS

The fiscal impact has been calculated without the benefit of Taxation and Revenue Department analysis. TRD input may change the fiscal impact upward or downward.

Public Education Department (PED) has reported there are 7,000 home schooled students recognized by PED. According to a City of University of New York study (cited at www.bankrate.com/brm/news/advice/20041109a1.asp), the cost of home schooling is approximately \$2,500 for the first child and then slightly less for the next children. Assuming \$2,000 in eligible costs per child, the fiscal impact would be a reduction in taxable income of \$14 million.

For the tutoring deduction, the following assumptions are used:

- \$35 per hour for tutoring
- 25 hours per year per pupil
- 5 percent of pupils will get tutoring

With these assumptions, taxable income is reduced by \$14.3 million for allowable tutoring costs. Using an effective rate of 3.5 percent, personal income tax revenues would decrease by \$997,000 in FY08. Since it is a deduction from adjusted gross income, the revenue impact occurs when the return is filed and so all of the impact for tax year 2007 is in FY08.

These fiscal impacts could be significantly different depending on the interpretation of “actual expenses.”

SIGNIFICANT ISSUES

PED:

Under the Public School Code, "Home School" means the operation by a parent of a school-age person who instructs a home study program that provides a basic academic educational program, including reading, language arts, mathematics, social studies and science (Section 22-1-2E, NMSA, 1978). Section 22-1-2.1 NMSA, 1978 requires home school parents to: (1) notify the State Superintendent [Secretary of Education] in writing of the establishment of a home school; (2) maintain records of student immunization; and (3) possess at least a high school diploma or its equivalent.

The burden of proof of home school establishment will be on the parent; however, since parents turn to the PED for verification of home schooling registration, this bill is likely to result in a significant increase in staff time needed to respond to home school requests, search the database and process the verification requests.

ADMINISTRATIVE IMPLICATIONS

PED:

The PED estimates that responding to requests for information and processing verifications of home school registration will require an additional 1.0 FTE at approximately 2088 hours of staff time (Office and Admin Support @\$13.61/hour X 2088 hours X 30% benefits). Total estimated cost to the PED would be \$37.0.

TECHNICAL ISSUES

PED reports that it is not clear how “tutoring” is being used in the bill.

There should be more explicit examples of what expenditures qualify. One interpretation may allow a high-definition plasma TV that would be used for instructional videos for home schooling purposes but entertainment at other times.

NF/mt