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FISCAL IMPACT REPORT

ORIGINAL DATE
LAST UPDATED 8/15/08 **HB** 4

SPONSOR Sandoval

SHORT TITLE Increase Working Families Tax Credit **SB** _____

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
(7,600.0)	(7,800.0)	(8,000.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)

Responses Received From
 Taxation and Revenue Department

SUMMARY

Synopsis of Bill

Increase the working families tax credit by 25 percent, beginning for tax year 2008 (personal income tax returns filed in 2009). The percentage of the federal EITC would be raised from 8 percent to 10 percent. All of the more than 200,000 working families currently receiving the credit would receive this 25 percent increase. The maximum amount of the credit would increase by \$96 to \$482 for workers with two or more children, by \$59 to \$292 for workers with one child, and by \$9 to \$44 for childless workers.

FISCAL IMPLICATIONS

Estimated Revenue Impact*						Fund(s) Affected
FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 09-13	
(7,600)	(7,800)	(8,000)	(8,300)	(8,500)	(40,200)	General Fund

* In thousands of dollars. Parentheses () indicate a revenue loss.

Source: Taxation and Revenue Department

SIGNIFICANT ISSUES

LFC is concerned that the reduction in recurring revenues will be enacted prior to reviewing agency budget requests for FY10.

The distributional impact of the increase in the Working Families Tax credit in 2008, is shown below.

Distribution of the Increase in the Working Families Tax Credit

AGI	Number of Returns (000)	Total Benefits (\$ millions)	Average Benefit (\$)
<i>All Credit Recipients</i>			
Under \$10,000	72.1	\$1.75	\$24
\$10,000 - \$20,000	65.7	\$3.87	\$59
\$20,000 - \$30,000	46.0	\$1.75	\$38
\$30,000 - \$50,000	16.5	\$0.22	\$13
\$50,000 and over	-	-	-
Total	200.3	\$7.60	\$38

Taxation and Revenue Department

July 16, 2008

Office of Tax Analysis, Research and Statistics

Twenty-four states (counting the District of Columbia) have enacted an Earned Income Tax Credit (EITC), for low- and moderate-income working families. According to the Center on Budget and Policy Priorities, empirical research has repeatedly confirmed that both the federal and state EITCs increase workforce participation among eligible families and increasing the size of an EITC increases this effect. New Mexico first introduced the state EIC in 2007.

TABLE 1: STATE EARNED INCOME TAX CREDITS BASED ON THE FEDERAL EITC			
State	Percentage of Federal Credit (Tax Year 2008 Except as Noted)	Refundable?	Workers Without Qualifying Children Eligible?
Delaware	20%	No	Yes
District of Columbia	40%	Yes	Yes
Indiana	6% (to 9% in 2009)	Yes	Yes
Illinois	5%	Yes	Yes
Iowa	7%	Yes	Yes
Kansas	17%	Yes	Yes
Louisiana	3.5%	Yes	Yes
Maine	5%	No	Yes

TABLE STATE EARNED INCOME TAX CREDITS BASED ON THE FEDERAL EITC				1:
State	Percentage of Federal Credit (Tax Year 2008 Except as Noted)	Refundable?	Workers Qualifying Eligible?	Without Children
Massachusetts	15%	Yes	Yes	
Michigan	10% (to 20% in 2009)	Yes	Yes	
Minnesota ^b	Average 33%	Yes	Yes	
Nebraska	10%	Yes	Yes	
New Jersey	22.5% (to 25% in 2009)	Yes	Yes	
New Mexico	8%	Yes	Yes	
New York ^c	30%	Yes	Yes	
North Carolina ^d	3.5%	Yes	Yes	
Oklahoma	5%	Yes	Yes	
Oregon ^e	6%	Yes	Yes	
Rhode Island	25%	Partially ^f	Yes	
Vermont	32%	Yes	Yes	
Washington	5% (to 10% in 2010) ^g	Yes	Yes	
Wisconsin	4% — one child	Yes	No	
	14% — two children			
	43% — three children			

Notes: From 1999 to 2001, Colorado offered a 10% refundable EITC financed from required rebates under the state's "TABOR" amendment. Those rebates, and hence the EITC, were suspended beginning in 2002 due to lack of funds and again in 2005 as a result of a voter-approved five-year suspension of TABOR. Under current law, the rebates will resume in 2011, but a recent income tax cut that also depends on the rebates is likely to exhaust the funds, leaving the EITC unfunded.

^a Maryland also offers a non-refundable EITC set at 50 percent of the federal credit. Taxpayers in effect may claim either the refundable credit or the non-refundable credit, but not both.

^b Minnesota's credit for families with children, unlike the other credits shown in this table, is not expressly structured as a percentage of the federal credit. Depending on income level, the credit for families with children may range from 25 percent to 45 percent of the federal credit; taxpayers without children may receive a 25 percent credit.

^c Should the federal government reduce New York's share of the TANF block grant, the New York credit would be reduced automatically to the 1999 level of 20 percent.

^d North Carolina's EITC is scheduled to expire in 2013.

^e Oregon's EITC is scheduled to expire at the end of 2013.

^f Rhode Island made a very small portion of its EITC refundable effective in TY 2003. In 2006, the refundable portion was increased from 10 percent to 15 percent of the nonrefundable credit (i.e., 3.75 percent of the federal EITC)

^g Washington's EITC is worth five percent of the federal EITC or \$25, whichever is greater. When the matching rate rises to ten percent in 2010, the minimum value will rise to \$50.

Source: Economic Policy Institute (www.epi.org)

ADMINISTRATIVE IMPLICATIONS

Forms and instruction will need to be changed as part of regular update for next tax year and staff training. TRD did not report the need for additional funding.

BLG/mt