

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR Jeff **ORIGINAL DATE** 02/17/11
LAST UPDATED 03/11/11 **HB** 288/aHTRC

SHORT TITLE Teachers Income Tax Deduction on Indian Land **SB** _____

ANALYST Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	(\$208.0)	(\$148.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation & Revenue Amendment to House Bill 288 makes half of the qualifying teacher's income deductible. It also clarifies technical details, and requires that the primary duty of the teacher be classroom instruction. The fiscal impacts have been modified to reflect 50 percent of the original bill's estimates.

Synopsis of Original Bill

House Bill 288 would create an income tax deduction for income earned for teaching full time at a school located on tribal land if the teacher lived full time during the school year on tribal land.

Applicable to tax years beginning on or after January 1, 2011.

FISCAL IMPLICATIONS

TRD:

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2011	FY2012	FY2013	FY2014	FY2015		
	(\$208.0)	(\$148.0)	(\$155.0)	(\$163.0)	R	General Fund

* In thousands of dollars. Parentheses () indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

An estimate of the number of teachers on New Mexico tribal land schools was obtained from Bureau of Indian Education and Public Education Department. [Information from the Public Education Department included school names and student enrollment information – we assumed student to teacher ratios of 30-to-1 to estimate the number of affected teachers in schools under PED.] The number of teachers was assumed to grow at an annual rate of 2%. Also, 30% of the teachers were assumed to be non-native (i.e. currently paying taxes). Average annual taxable income of \$25,000 was used for the purpose of this estimate for FY2011 which was grown at a rate of 3% for the subsequent years. [An average tax rate of 3.2% was used to estimate the effect on tax revenue.] 50% of tax year 2011 payments are assumed to occur in FY2012 taking into consideration when the bill would go into effect if passed.

SIGNIFICANT ISSUES

As with all tax credits, deductions and exemptions, House Bill 288 narrows the personal income tax base and makes New Mexico tax code more complicated. These characteristics run contrary to the tax policy principles of efficiency and simplicity.

TRD:

The provisions of this deduction are unnecessary for individuals eligible for an exemption under Section 7-2-5.5. Pursuant to that section, income earned by a member of a New Mexico federally recognized Indian nation, tribe, band or pueblo is exempt from state income tax if the income is earned from work performed within the boundaries of the reservation or pueblo grant and the member lives within the boundaries of the reservation or pueblo grant.

For the purposes of auditing, the department currently has no way of determining teacher certification, if the teacher is employed full-time on a reservation, or if the teacher is living on tribal land full time during the school year.

PED:

HB 288 provides an incentive for licensed teachers to teach and live on Indian lands to take advantage of the tax deduction. However, since HB 288 requires a teacher to both work and live full time on Indian land to take advantage of the tax deduction, this bill may be a greater advantage to tribes and pueblos with greater housing opportunities for teachers and to schools that can provide teacher housing on Indian land.

ADMINISTRATIVE IMPLICATIONS

House Bill 288 has minimal impact on administrative costs.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If House Bill 288 is not enacted, non-Indian teachers who live and work on tribal lands will continue paying Personal Income tax on income earned from teaching.

JAG/bym:mew

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc