

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

January 27, 2024

Bill: SB-171 **Sponsor:** Senator Craig W. Brandt

Short Title: Teacher-Purchased Supplies Tax Credit

Description: This bill adds a new deduction from net income to the Income Tax Act for public school teachers that purchase supplies for their classrooms for educational purposes, in an amount not to exceed \$500 for taxable year 2024. Starting taxable year 2025 until 2028 the amount is not to exceed \$1,000.

This bill has a reporting requirement for the Taxation and Revenue Department (Tax & Rev).

Effective Date: Not specified; 90 days following adjournment (May 15, 2024). Applicability – The provisions of this act apply to taxable years beginning on or after January 1, 2024.

Taxation and Revenue Department Analyst: Sara Grubbs

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2024	FY2025	FY2026	FY2027	FY2028		
--	(\$325)	(\$650)	(\$650)	(\$650)	R	General Fund

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

Methodology for Estimated Revenue Impact: The bill provides a personal income tax (PIT) deduction to all public school teachers that spend their own money on classroom supplies in New Mexico. According to the last report of the National Center for Educational Statistics, 94% of all public school teachers in the United State have spent any of their own money on classroom supplies without reimbursement. The Taxation and Revenue Department (Tax & Rev) applied that percentage to the estimated 23,094 public school teachers in New Mexico during the academic year 2022-2023¹ to calculate that approximately 21,708 teachers might claim the deduction. The lost revenue to the general fund is based on wage of a \$63,580, the estimated average wage of a New Mexico public school teacher in the academic year 2022-2023², and an effective tax rate of 3.0% for a taxable income between \$50,000-\$75,000.

The fiscal impact increases from FY2025 to FY2026 because the bill proposes a deduction limited to \$500 for tax year 2024 and \$1,000 for tax year 2025 and onwards. The impact is estimated to be constant. The analysis is made using the National Education Association’s Annual Rankings of the States 2022 and Estimates of School Statistics 2023 and remains flat. Also, it is assumed that the mean wage for teachers will stay in the specified range above for the coming years, and therefore no significant changes in the effective tax rate are expected.

Policy Issues: The bill’s purpose appears to be compensating teachers who spend their own resources to buy school supplies for the classrooms. As noted in the fiscal impact methodology, nationwide, 94% of teachers spend their own money to support the needs of their classroom by buying supplies. According to the National Center for Education Statistics, New Mexico schoolteachers spent an average of \$494, and 8.5% spent more than \$1,000 in the 2020 to 2021 academic school year. The bill’s creation of a deduction

¹ www.nea.org

² www.nea.org

falls well short of compensating teachers for their expenses, assuming they spend \$500 or up to \$1,000 annually. Deductions exclude the deducted amount from taxable income, no longer exposing that income to the teacher's effective tax rate (estimated at 3%). On average, the estimated state personal income tax reduction during FY2025 per teacher is only \$15 and \$30 for FY2026 onwards.

Also, as this is a deduction from net income, it will not benefit taxpayers who are able to deduct or exempt most of their income through other statutes. For instance, it is not clear if any of the school teachers employed through tribal schools would fall under the qualifications for this deduction, but if they do, they are already able to exempt all their income if they work and live on tribal lands per Section 7-2-5.5 NMSA 1978.

This proposed deduction appears to be legitimizing in the tax code the use of teacher's personal resources to support classroom supply needs. It is generally recognized that teachers' salaries nationwide are not sufficient given the relative importance of their jobs, and it is not ideal that they are spending from their own limited salaries to support their teaching. Other mechanisms outside of the tax code such as sufficient budget funding for school districts and their associated schools may be more appropriate in targeting this public education policy issue.

Preferential treatment of taxpayers based on profession is seen as eroding horizontal equity in state income taxes. Taxpayers in similar economic circumstances are no longer treated equally, with teachers receiving a benefit not available to those outside the profession.

The tax deduction does not include a sunset date. Tax and Rev supports sunset dates for policymakers to review the impact of a deduction or other tax incentive before extending it if a sufficient timeframe is allotted for tax incentives to be measured.

Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 25% of the state's recurring general fund revenue. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, that impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of taxable income and ties to other statutes in the federal tax code. This is referred to as "conformity" to the federal tax code. The PIT is an important tax policy tool that has the potential to further both horizontal equity, by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on taxpayers' ability to pay.

Technical Issues: On Page 2, line 22, the bill defines a "public school teacher" as a teacher licensed under the Public School Code. Section 22-1-2(Z) NMSA 1978 of the Public School Code defines a "teacher" as a licensed teacher whose primary duty is classroom instruction or the supervision, below the school principal level, of an instruction program or whose duties include curriculum development, peer intervention, peer coaching or metering or serving as a resource teacher for other teachers. The bill is not clear if the intent was to provide the deduction to individuals of an instruction program (defined in Section 22-1-2(F) NMSA 1978 as counselors, social workers, nurses, speech pathologists, etc. Therefore, if the sponsor's intent is to allow the deduction to licensed teachers only, the definition of licensed school teacher may need to be revised to limit the scope.

The bill does not define "public school", but it is assumed that the definition in Section 22-1-2(L) NMSA 1978 applies. Tax & Rev recommends a specific referral to that definition.

Other Issues: It is unclear the purpose of doubling the deduction amount from tax year 2024 to tax year 2025. Tax and Rev suggests the deduction be the same amount for all tax years, which would simplify

the administration of the deduction and reduce the cost of implementation as it would require no additional implementation changes in tax year 2025.

Administrative & Compliance Impact: Tax & Rev will make information system changes and update forms, instructions, and publications. This bill will have a low impact on ITD, approximately 220 hours or about 1 month for an estimated staff workload cost of \$12,210. The implementation will be included in the annual tax year changes.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2024	FY2025	FY2026	3 Year Total Cost		
--	\$12.2	--	\$12.2	NR	Tax & Rev - ITD

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

Related Bills: Similar to SB-28 (2023 Session)