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LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
56th Legislature, 2nd Session, 2024

Bill Number	<u>SB171</u>	Sponsor	<u>Brandt</u>
Tracking Number	<u>.227370.1</u>	Committee Referrals	<u>SCC/STBTC/SFC</u>
Short Title	<u>Teacher-Purchased Supplies Tax Credit</u>		
Analyst	<u>Estupiñan</u>	Original Date	<u>1/29/2024</u>
		Last Updated	<u></u>

BILL SUMMARY

Synopsis of Bill

Senate Bill 171 (SB171) would create a tax deduction for public school teachers who purchase school supplies for use by their assigned students.

The bill would apply to taxable years beginning on or after January 1, 2024.

FISCAL IMPACT

SB171 does not contain an appropriation.

According to the Taxation and Revenue Department (TRD), the enactment of SB171 may have a recurring fiscal impact on the general fund of \$325 thousand in FY25 and \$650 thousand in every fiscal year thereafter. TRD determined this fiscal impact by assuming 94 percent of the 23,094 public school teachers in New Mexico would spend \$494 each fiscal year on school supplies for their assigned students. Based on an average teacher salary of \$63,580 in FY23, TRD then assumed an effective tax rate of 3 percent, and found an estimated per-teacher reduction in state personal income tax of \$15 for FY25 and \$30 for FY26 to FY28.

The amount of the deduction would be limited to \$500 in tax year 2024 and would increase to \$1,000 in tax year 2025 to 2028.

SUBSTANTIVE ISSUES

Personal Income Tax in New Mexico. Like 42 other states and the District of Columbia, New Mexico levies a tax on personal income. In New Mexico, the personal income tax is designed to be progressive, where the rate of the tax increases as the taxable income of a taxpayer increases. As of tax year 2024, New Mexico has five tax brackets, where the tax rate ranges from 1.7 percent of taxable income for those in the lowest bracket to 5.9 percent for those in the highest bracket. For FY25, the Consensus Revenue Estimating Group has projected the personal income tax may

generate approximately \$2.54 billion in revenue for the state, or approximately 19.5 percent of recurring revenue.

Teacher Expenditures on School Supplies. In 2023, a survey completed by the United States Department of Education found 94 percent of teachers in traditional classrooms and 88 percent of teachers in public charter schools purchased supplies for their classroom during the 2014-2015 academic year. Among those who purchased school supplies for their students, the mean amount they spent was \$478 in the 2014-2015 academic year, with a median of \$297. Of those surveyed, approximately 44 percent spent below \$250, 36 percent spent between \$251 and \$500, and 20 percent spent above \$501 in the 2014-2015 academic year. However, these amounts may have changed significantly since this survey data was collected.

Federal Tax Benefits for Educators Purchasing School Supplies. The federal government allows teachers, instructors, counselors, principals, and classroom aides who work with students in kindergarten through grade 12, complete at least 900 hours of work during the school year, and purchase school supplies for their students, to deduct up to \$300 from their taxable income each tax year. Similar to the proposed deduction in SB171, the federal government permits educators to claim a deduction to their taxable income, rather than a credit against their tax liability. This approach thereby yields a financial benefit in the form of a lower tax liability that is substantially below the amount those educators paid to purchase supplies.

Definitions of Educators and School Supplies. SB171 would apply to eligible taxpayers who are “public school teachers,” which the bill defines as, “a person who is licensed as a teacher pursuant to the Public School Code and who teaches at a public school.” 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 instructional program or whose duties include curriculum development, peer intervention, peer coaching or mentoring or serving as a resource teacher for other teachers.” This definition thereby excludes a broad range of educators from claiming the proposed deduction, such as counselors and principals, who are otherwise eligible for the prior-mentioned federal tax deduction.

SB171 also defines “school supplies” as including notebooks, paper, writing instruments, crayons, art supplies, rulers, maps and globes, but excluding computers and other electronic devices. This definition is not aligned with the federal definition of qualified expenses, which is inclusive of computers and software that is used in the classroom for the purpose of student instruction.

ADMINISTRATIVE IMPLICATIONS

TRD found the bill would have a non-recurring fiscal impact of \$12.2 on the agency, which is largely attributed to information system changes and updates to forms, publications, and instructions.

SOURCES OF INFORMATION

- LESC Files
- Taxation and Revenue Department (TRD)

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