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FISCAL IMPACT REPORT

SPONSOR: Larranaga DATE TYPED: 02/19/03 HB 753

SHORT TITLE: Home Child Care Tax Credit SB _____

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(6,275.0)	(6,500.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 753 would provide a \$350 per family non-refundable credit for resident individuals and families caring for children under the age of 12 at home. The individual claimant or non-working spouse must not have a job or gainful self-employment at any time during the year. The credit offsets personal income tax liability.

FISCAL IMPLICATIONS

TRD notes the estimate was constructed as follows: Of the 250,000 married household filing joint returns, 35 percent, or 87,500 are estimated to have one child under the age of 12. Of these, 22.5 percent or 19,688 have one parent not in the workforce. 29.3 percent of these households, or 5,768 have insufficient liability to claim the \$350 credit provided by the proposed legislation, and therefore claim about half this amount or \$175. The remaining 13,919 claim the full \$350. Hence credits claimed by married household total $13,919 \times \$350 + 5,768 \times \$175 = \$4,871,672 + \$1,009,477 = \$5,881,148$. Some heads of households, married filing separate returns and singles are not in the workforce, but care for children at home. No detailed information is available for this group regarding labor force information. It was therefore assumed that credits for this group totaled 10 percent of credits claimed by married households. The final estimate was therefore

\$5,881,148 x 1.10 = 6,469,263 and rounded to \$6.5 million.

OTHER SUBSTANTIVE ISSUES

TRD makes the following tax policy arguments”

- Proponents of tax credits for stay-at-home parents argue that working parents receive tax preferences to defray the costs of childcare and thus it is only fair that those who choose to stay home with their children receive comparable tax treatment. Counterpoints to these arguments include: a) Daycare cost foregone by a family in which one parent stays home with the children is in effect tax-free income; and b) Daycare costs are an expense associated with working.
- The proposed credit is non-refundable and thus denies state aid to stay-home parents with no tax liability. In this sense, it may not help the low-income and single parents who need it most.
- The existing dependent child care credit of 7-2-18.1 NMSA 1978 can be claimed only for periods when the resident (or if filing jointly, the resident and the resident’s spouse) is gainfully employed. Generally, then it will not be possible for one taxpayer to claim both credits.

SS/sb:yr