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FISCAL IMPACT REPORT

ORIGINAL DATE 8/17/08

SPONSOR Salazar LAST UPDATED 8/17/08 HB 17

SHORT TITLE Tax Credit Administration Costs SB _____

ANALYST Lucero

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
\$1,000.0		Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Conflicts with SB1, SB16, SB24

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House bill 17 appropriates \$1.0 million from the general fund to Taxation and Revenue Department (TRD) for the purpose of administering tax credits adopted in the current special session.

FISCAL IMPLICATIONS

The appropriation of \$1.0 million contained in this bill is a non-recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY09 shall revert to the general fund.

ADMINISTRATIVE IMPLICATIONS

TRD's response on administering the tax credits proposed in SB24:

Information systems will need to be modified. Checks will need to be printed and mailed. Phone inquiries concerning rebates will need to be answered. Significant outreach efforts to Native Americans, active members of the military, retirees, and low-income residents,

who might not have filed a 2007 New Mexico income tax return, will need to be undertaken. A notice in English and Spanish describing tax rebates and credits and HSD programs for low- and middle-income taxpayers will be inserted in all rebate checks. Also, to simplify filing for individuals who would otherwise not file a 2007 New Mexico income tax return, TRD will create a highlighted PIT-1 form, which will be the same as the current form but with the necessary entries that need to be completed for the rebate (name, address, SSNs, residency, dependents, filing status, AGI, and signatures) highlighted.

Three Senate bills would provide a rebate, SB1, SB16 and SB24.

SB1 has an upper income taxpayer limit of \$70,000 and TRD estimates the number of rebates would be 641,200. The department estimates the minimum administrative cost of SB1 is \$746.3 thousand but could be as much as \$890.0 thousand. The costs vary due to variable costs such as overtime, printing costs, and the number of taxpayer calls to a help line.

SB16 and SB24 have an income upper income tax payer limit of \$80,000 and TRD estimates the number of rebates would be 671,200. The department estimates the minimum administrative cost of SB16 and SB24 is \$765.5 thousand but could be as much as \$910.0 thousand. The costs vary due to variable costs such as overtime, printing costs, and the number of taxpayer calls to a help line.

SIGNIFICANT ISSUES

(See consequences below)

PERFORMANCE IMPLICATIONS

TRD notes that if the department does not receive additional funding, the department will have to hold positions vacant which could result in:

- a loss of revenue collections: \$26.2 million
- a delay in processing of deposits of about \$17 to \$20 million per day; thus risking compliance with 24 hour deposit rule, an audit exception; significant delay in processing of taxpayer refunds and response to taxpayer inquiries
- a inability to hold DWI driver's license (DL) revocation hearings within 90 days due to staffing cuts: persons arrested for DWI would keep their DL

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

All of the current bills proposing tax credits have an appropriation of an identical amount. This bill would double the appropriation if one of the tax credit bills (SB1, SB16, and SB24) pass in tact. If the appropriation were stripped from one of those bills, HB17 would serve to restore the appropriation.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

TRD estimates the following consequences may occur if the department does not receive an appropriation to process the rebate checks:

Rebate checks will be delayed until after Thanksgiving, and possibly until 2009

If TRD had to absorb the cost of processing and mailing the rebate checks, the department would have to hold a greater number of positions vacant than normal to create enough vacancy savings to cover postage, printing costs, the purchase of additional warrant stock, outreach, etc. The division which would be impacted the most would be in Tax Administration. The department noted in an LFC review *Review of Collections and Distribution of Taxes and Enhanced Delinquent Tax Collection Initiative June 19, 2008* that if the forced vacancy rate is reduced, the department can deliver an \$8.00 return for every \$1.00 invested. **TRD estimates the forced vacancy and temporarily assigning tax collectors and auditors to work on the rebate could be as high as \$26.2 million and result in lower performance measure outcomes.**

ALTERNATIVES

Contingency language should be adopted to avoid a doubling up of the appropriation. If current bills pass intact and HB17 is also enacted, \$2 million will be appropriated.

DL/mt