FISCAL IMPACT REPORT

		ORIGINAL DATE	03/11/21		
SPONSOR	Candelaria	**LAST UPDATED**		**HB**	
SHORT TITLE	Low-Income Comprehensive Tax Rebate			**SB**	339
				ANALYST	Torres

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23	FY24	FY25		
	Up to ($48,800.0)	Up to ($49,900.0)	Up to ($50,900.0)	Up to ($52,000.0)	Recurring	General Fund – LICTR
	($49,200.0)	($49,200.0)	($49,200.0)	($49,200.0)	Recurring	General Fund - WFTC
	($98,000.0)	**($99,100.0)**	**($100,100.0)**	**($101,200.0)**	**Recurring**	**TOTAL GENERAL FUND**

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		$10.3	$10.3	Nonrecurring	TRD – General Fund

Parenthesis ( ) indicate expenditure decreases

Relates to HB 42, HB 291

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Attorney General (NMAG)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 339 (SB339) expands the Low-Income Comprehensive Tax Rebate (LICTR) and Working Families Tax Credit (WFTC), starting in tax year 2021.

The amount of the LICTR is increased at all income levels with the highest amount of the rebate increased from $450 to $730. The bill also increases the income levels that allow taxpayers to qualify, raising the highest modified gross income to receive a rebate from $22 thousand to $36 thousand. TRD is required to compile an annual report on the rebate that shall include the number of taxpayers approved by TRD to receive the rebate, the aggregate amount of rebates approved, and any other information necessary to evaluate the rebate. The report shall be presented to the interim Revenue Stabilization and Tax Policy Committee, Legislative Health and Human Services Committee and the Legislative Finance Committee, with an analysis of the cost of the rebate.

The bill also increases the amount of the working families tax credit (WFTC) from 17 percent to 25 percent of the federal earned income tax credit (EITC). It also provides eligibility for individuals who would have been eligible but are without social security numbers, as well as a taxpayer who are 18 to 25 years old.

The bill also amends the Withholding Tax Act to require that a statement of information regarding state assistance for low-income New Mexicans be provided by employers to withholdees in addition to their annual statement of withholding. The statement shall include information regarding refundable tax rebates and credits for low-income filers provided by the state, such as LICTR and the WFTC.

FISCAL IMPLICATIONS

Low-Income Comprehensive Tax Rebate. The new proposed LICTR amounts by modified gross income (MGI) level and number of exemptions were applied to historical data using tax years 2018 and 2019. The fiscal impact includes the rebate amount increase for the current population claiming the credit, which is approximately 210 thousand taxpayers. The average rebate amount for the current population increases from $78 to $195. The fiscal impact includes the expanded population of eligible taxpayers who can now qualify under the higher threshold of $36 thousand MGI. Their average rebate amount is estimated at $68 per taxpayer. Additionally, the estimate includes a population of taxpayers who are currently eligible but have not claimed the rebate in the past.

The Covid-19-induced recession has impacted individuals working in the service industry where many jobs are low wage. Based on the website tracktherecovery.org, as of December 2020, New Mexico individuals with incomes less than $27 thousand have seen a 21 percent reduction in employment rates since January 2020. The $27 thousand income threshold is within the new proposed eligible threshold for LICTR. This analysis assumes this population is captured within the three sub-groups described above. Additionally, individuals with incomes between $27 thousand and $65 thousand have experienced approximately a 4 percent decrease in employment rates. A proportion of this income range may become eligible under the new proposed threshold for LICTR, but TRD states it is difficult to estimate.

The $48.8 million impact assumes taxpayers will act to maximize their benefits of tax relief and tax rebates by quickly filing their state PIT returns in spring 2022 rather than requesting extensions to file later, causing a full-year fiscal impact in FY22. Thus, the fiscal impact represents the maximum fiscal impact and assumes a full "take-up" of all sub-groups described above. This revenue impact is then grown for the following fiscal years to account for inflation adjustment provided for in the proposed legislation, using the IHS forecast for U.S inflation growth based on the consumer price index for all urban consumers published by the U.S. Bureau

of Labor Statistics.
Working Families Tax Credit. For determining the impact of changes to WFTC proposed in the bill, TRD started with the population of taxpayers who claimed the credit in tax year 2019 (TY2019). To estimate the impact of raising the amount of credit from 17 percent to 25 percent of the federal EITC, TRD assumed that every taxpayer who was eligible and claiming WFTC in TY2019 will continue to claim the credit at the higher rate.

The bill also introduces two new populations that would become eligible only under the WFTC as they are currently unable to claim the EITC. This includes working childless adults 18 to 24 years of age and adults who file federal and state taxes under an individual tax identification number (ITIN) rather than a social security number. To be eligible for the EITC, a taxpayer must file with a social security number.

For working adults aged 18 to 24, TRD reviewed current Personal Income Tax (PIT) filers who are residents, meet the age range, appear to be working given reported withholding and would meet the income requirements given the current federal EITC tables and are not reporting their own dependents. It was also assumed that they are not dependents of another taxpayer. (See technical notes below.) TRD arrived at a population of approximately 41,750 taxpayers. The total WFTC claimed by these taxpayers was estimated based on the average credit claimed by filers aged 25-30 years in TY2019. This average was computed based on the increased rate of 25 percent proposed in this bill. TRD's estimate of the fiscal impact of this population receiving the credit is $3.6 million.

TRD next reviewed PIT filers who file under an ITIN. TRD again applied that they must be reporting as residents. TRD then estimated the amount of federal credit each sub-population could receive given if they claim dependents or are Single, Head of Household or Widowed based on the averages from TY 2019. TRD's estimate of the fiscal impact of this population receiving the credit is $6.2 million.

The Federal EITC maximum credit amounts increase annually to keep pace with inflation. This would put an upward pressure on the estimated impact of the bill over the years. However, to balance out that upward pressure, there is downward pressure from increased unemployment in light of the COVID-19 pandemic, which has caused the number of working adults to fall. TRD assumes that in balance, both these effects will cancel each other out.

SIGNIFICANT ISSUES

President Biden has proposed a temporary expansion of the Federal EITC[1]. If these proposed changes went into effect, the revenue impact of WFTC presented here will change significantly and will need to be reassessed.

The expectation to have an employer notify their employees that they may qualify for low income rebates may not be appropriate under the annual statement of withholding. The employer and employee relationship concerns wages, benefits and work performance, and an employer is not aware of other circumstances that may impact an employee's eligibility for tax

[1] https://www.whitehouse.gov/briefing-room/legislation/2021/01/20/president-biden-announces-american-rescue-plan/

rebates and credits. Some individuals may feel stigmatized by having their employer notify them on their annual statement of withholding, of low-income rebates and credits.
TRD more appropriately holds the responsibility to ensure that taxpayers have access to instructions and public information through bulletins and communication outreach, and to educate and inform taxpayers when completing their annual personal income tax return of all credits, deductions, exemptions and rebates they may be eligible for. Further, 90 percent of taxpayers file electronically using free tax preparation software. The eligible taxpayer is able to file free using IRS free file approved vendors that have guided questions to direct them to low income rebates, credits, deductions and exemptions.

ADMINISTRATIVE IMPLICATIONS

TRD will need to make information system changes and create new publications, forms and may need to create or revise regulations. These changes will be incorporated into annual tax year implementation and represents $10,328 in workload costs by the Information Technology Division (ITD).

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB42 duplicates only the LICTR rebate of SB339 while HB291 contemplates the same changes to LICTR but a WFTC increase to 20 percent rather than 25 percent.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

Does the bill meet the Legislative Finance Committee tax expenditure policy principles?

1. **Vetted**: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted**: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent**: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable**: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective**: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired

results.

LFC Tax Expenditure Policy Principle	Met?	Comments
Vetted	✘	
Targeted		
Clearly stated purpose	✘	
Long-term goals	✘	
Measurable targets	✘	
Transparent	✓	
Accountable		
Public analysis	?	
Expiration date	✘	
Effective		
Fulfills stated purpose	?	
Passes "but for" test	?	
Efficient	?	
Key: ✓ Met ✘ Not Met ? Unclear		

IT/al