FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Vincent/Dow/Terrazas	**ORIGINAL DATE**	2/5/2025
SHORT TITLE	Home School Curriculum Material Tax Credit	**BILL NUMBER**	House Bill 177
		ANALYST	Faubion

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT	$0.0	Up to ($29,250.0)	Up to ($29,250.0)	Up to ($29,250.0)	Up to ($29,250.0)	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
PED	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Recurring	General Fund
TRD	$45.3	$2.5	$0.0	$47.8	Nonrecurring	General Fund
Total	$45.3	$2.5	$0.0	$47.8	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files
LESC Files

Agency Analysis Received From
Taxation and Revenue Department (TRD)

Agency Analysis was Solicited but Not Received From
Public Education Department (PED)

SUMMARY

Synopsis of House Bill 177

House Bill 177 (HB177) establishes the home school curriculum materials income tax credit. It allows eligible taxpayers who homeschool their children to claim a tax credit of up to $2,500 per student for the cost of curriculum materials, including textbooks, workbooks, manipulatives, and other instructional resources.

The taxpayer must be a New Mexico resident, not a dependent of another individual, and a parent or guardian of a school-age child attending a home school that meets state requirements. Taxpayers must apply for certification of eligibility from the Public Education Department, which will issue a certificate stating the credit amount. If the credit exceeds the taxpayer's income tax liability, the excess amount will be refunded.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted. The credit applies to taxable years 2025 and after.

FISCAL IMPLICATIONS

This bill creates or expands a tax expenditure. Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

During the 2024 school year, the Public Education Department (PED) identified approximately 11.7 thousand students as being enrolled in a homeschool program. Assuming all 11.7 thousand homeschool students' parents claim this credit, the cost to the general fund would be $29.25 million per year. The Taxation and Revenue Department (TRD) noted the total cost could be less if parents or guardians do not claim the entire credit amount for every homeschooled student in the state.

SIGNIFICANT ISSUES

This credit would reduce the financial burden on homeschooling families by reimbursing them for materials like textbooks and supplies. It can make homeschooling more accessible, especially for families with limited budgets. The credit could encourage parents to invest in quality educational materials for their children, which may improve the quality of homeschooling experiences. The credit may only cover part of the homeschooling expenses (e.g., textbooks, but not tutors or extracurricular activities), which means families may still face significant costs.

However, while homeschooling can be a great option for some, this credit benefits only those who are homeschooling, excluding other students in public or private schools who may also need support for educational expenses. It may lead to greater disparity between families who can already afford homeschooling and those who cannot.

TRD notes the personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 25 percent 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. Like several states, New Mexico computes its income tax based on the federal definition of taxable income and ties to other statues in the federal tax code. This is referred to as "conformity" to the federal tax code. 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. This credit erodes horizonal equity by basing the credit on a taxpayer’s choice of home schooling for their children, thus taxpayers in similar economic circumstances are no longer treated equally.

TRD also notes this credit does not limit the number of eligible students per year. If the number of eligible home-schooled students increases, the total revenue impact to the state could also substantially increase. In the 2023-2024 school year, there was an average of 311,284 students in the New Mexico public school system, of which 4 percent were home-schooled.

This credit does not have a sunset date with a delayed repeal. TRD supports sunset dates for policymakers to review the impact of a tax credit or other tax incentive before extending it if a sufficient timeframe is allotted for tax incentives to be measured. A delayed repeal promotes accuracy, brevity, and clarity in the tax code.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill’s requirement to report annually in the tax expenditure budget the data compiled from the reports from taxpayers taking the credit.

ADMINISTRATIVE IMPLICATIONS

TRD will update forms, instructions and publications and make information system changes. Staff training to administer the credit will occur. This implementation will be included in the annual tax year changes. TRD’s Administrative Services Division (ASD) will test credit sourcing and perform other systems testing. It is anticipated this work will take approximately 40 hours split between 2 at a cost of approximately $2,500. TRD’s Information Technology Division (ITD) will implement the changes in GenTax, the tax system of record. This credit will have a moderate impact on ITD, taking approximately 680 hours or about 4.5 months for an estimated staff workload cost of $45,315. The estimate includes a data interface between TRD and PED.

PED will also incur some recurring costs to certify the credit.

OTHER SUBSTANTIVE ISSUES

TRD highlights the following definitions that may need further clarification and definition for PED to certify efficiently the taxpayer’s eligibility:

> Section (1)(H)(1), Page 3, lines 13 through 16, defines “curriculum materials” very broadly, to include “resources used to guide home instruction to a school-age person in a home school classroom…” without any requirement that such materials meet educational standards or be otherwise certified, TRD recommends adding language similar to that on page 1, lines 21 through 23, “that meet the requirements for educational instruction in a home school pursuant to the Public School Code,” at the end of this subsection.
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> TRD notes that the definition of “curriculum materials” is not clear as to whether electronic devices such as computers or tablets or the cost of computer applications are included. Inclusion of these items would substantially increase the potential cost of the

credit. The term "manipulatives" is not self-defining. The definition could be "objects such as blocks which students are instructed to use in a manner which teaches or reinforces a lesson such as fraction strips, interlocking cubes and tiles."

Under Section 1, Subsection H(3), the definition of "school-age person," is similar to the definition of qualified student in Section 22-8-2(O) NMSA 1978 in the Public School Finance Act. The definition in this bill is narrower than the one in the Public School Finance Act. This bill's definition does state "and meets other criteria provided in the Public School Finance Act," but does not explain the criteria. Public School Finance Act states "(d) has reached the student's twenty-second birthday on the first day of the 2019-2020 school year, is counted in a school district's or charter school's membership on the third reporting date of the 2018-2019 school year, has been continuously enrolled in the same public school since that reporting date and is still enrolled in that school;" this section may conflict with the requirement for the school-age person to be home schooled.

TRD is now required by Section 7-1-84 NMSA 1978 to compile and present a tax expenditure budget, which includes the number of taxpayers that claim and the amount of claims for a tax expenditure. Credits are tax expenditures and will be included on this report. For that reason, TRD recommends that on page 3, Subsection G., lines 10 and 11, "including the total annual aggregate cost of the credit" is stricken.

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

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

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
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.	?	No record of an interim committee hearing can be found.
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✗	There are no stated purposes, goals, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.	✓	The credit must be reported publicly in the TER. The deduction does not have an expiration date.
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.	✗	

Public analysis Expiration date		
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. Fulfills stated purpose Passes "but for" test	?	There are no stated purposes, goals, or targets with which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

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