BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 9, 2025

Bill: HB-184 **Sponsor:** Representative Patricia Roybal Caballero

Short Title: Taxpayer Income Distributions

Description: This bill provides that, starting in 2026, on or before April 15 of each year, the Department of Finance and Administration (DFA) is to distribute $1,000 from the general fund to each individual who is a resident and who has filed an income tax return, or has requested an extension to file an income tax return, for the previous taxable year. The bill also amends Section 7-1-8.8 NMSA 1978 to provide that the Taxation and Revenue Department (Tax & Rev) can share return information with DFA related to this distribution.

Effective Date: Not specified; 90 days following adjournment (June 20, 2025).

Taxation and Revenue Department Analyst: Lucinda Sydow

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	($1,330,500)	($1,330,500)	($1,330,500)	($1,330,500)	R	General Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: Tax & Rev pulled data for Tax Year 2021 filers. Tax Year 2021 was the required filing tax year for taxpayers to be eligible for a rebate under 7-2-7.7 NMSA 1978. This rebate incentivized the filing of more returns than on average in a taxable year. Because Tax & Rev assumes that this distribution will also incentivize more filings of PIT returns, Tax Year 2021 was the best proxy for the number of returns that might result from the proposed rebate. Tax & Rev determined the number of returns by residency as defined under Section 1, subsection B. Tax & Rev notes that no caveat in the bill excludes tax filers who are dependents of another tax filer to receive this rebate. Thus, every tax return – even a return from an individual who is a dependent on another return - meeting the residency requirement is included in the fiscal impact calculation. Tax & Rev then determined how many returns are associated with married filing jointly. Finally, Tax & Rev multiplied the number of joint returns by $2,000 and all remaining returns by $1,000 to arrive at the aggregate fiscal impact. Tax & Rev assumes the impact is flat as New Mexico's population is projected to remain flat in the near term.

Policy Issues: While this distribution is impacting the General Fund as a whole, by tying the distribution to filing a PIT return, this distribution is essentially lowering the PIT liability for every resident New Mexican by $1,000, with a dramatic fiscal impact. 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 (New Hampshire and Washington do not tax wage and salary income). 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 distribution erodes vertical equity by distributing an equal amount of $1,000 regardless of the income of the tax filer and their ability to pay PIT.

If the intent is to lower the PIT liability for every resident tax filer, allowing residents to have more disposable income from wages, retirement pensions and investments, then adjusting marginal PIT tax rate brackets would be a more efficient method, along with increases of refundable credits and rebates for low-income tax filers. The tax brackets under 7-2-7 NMSA 1978 were adjusted by 2024 legislation to lower the effective tax rate for all filers starting in Tax Year 2025, resulting in savings for every tax filer. Further tax brackets adjustments and changes to low-income rebates and credits could achieve the taxpayer savings proposed in this bill. The tax relief could more easily targeted towards those with less disposable income, preserving vertical equity while also increasing the economic impact as those taxpayers spend the money in the local economy. Reducing PIT through the rate brackets allows employees to receive the benefits immediately because employers reduce withholding, therefore increasing paychecks.

This distribution does have a sunset date. Tax & Rev supports sunset dates for policymakers to review statutes that impact the general fund and other funds before extending them. This distribution represents a significant loss of general fund revenue in perpetuity. This proposal would decrease recurring General Fund revenue by about 10% in FY2026 and FY2027, reducing the legislature's budgetary flexibility with respect to the broad appropriation needs of the State in future years.

It is unclear why this bill brings another State agency, DFA, into the proposed process. Tax & Rev is the administrator of taxes in New Mexico. This tax relief could much more efficiently be handled with taxpayers claiming the intended rebate annually on their PIT return. Doing this would also ensure that taxpayers who file an extension by April 15 but do not ultimately follow through with filing a tax return by October 15 do not receive the rebate. Finally, Tax & Rev garnishes tax refunds for certain offsets, including for child support liabilities and federal unpaid taxes. Leaving this rebate with Tax & Rev rather than DFA will ensure a taxpayer's liabilities are paid before they receive any additional rebate.

Technical Issues: [Section 1]: In subsection A, on page 1, DFA is to distribute $1,000 on or before April 15 to each resident who has filed an income tax return for the "previous taxable year." Yet, April 15th is the date that tax returns are due for the "previous taxable year". Tax & Rev cannot immediately process returns in order to create a data file to share with DFA for taxpayers who file at or near the end of the filing period, as taxpayers will have until midnight on April 15th to file. Tax & Rev suggests a distribution date of June 15th of each year. This will allow time to produce the data file for DFA and still be within the fiscal year end date of June 30th.

The bill does not specifically state whether filers who file a return or a request for an extension after April 15 are entitled to the distribution. Some filers file their returns late without requesting an extension, or file their requests for extension late. Tax & Rev suggests amending the language of the bill on page 1, lines 21-22, to state "… for the previous taxable year pursuant to the Income Tax Act on or before April 15 of the current taxable year." If late filers are allowed to claim the distribution, Tax & Rev will not be able to meet the requirements of the bill to distribute to all qualifying taxpayers by April 15 or any certain date. Furthermore, limiting eligibility to those who file their returns or requests for extension on or before April 15 will encourage the timely filing of returns by taxpayers.

This bill does not define an effective and applicability date for the distribution under Section 1 by DFA. Tax & Rev suggests an effective date of January 1, 2027, for Section 1, applicable to Tax Year 2026. This effective date will provide time for DFA and Tax & Rev to establish data sharing processes and procedures to securely share taxpayer data.

Other Issues: [Section 1]: Subsection B defines "resident." For brevity in the statute, Tax & Rev suggests that subsection B reference statute 7-2-2 S NMSA 1978.

Administrative & Compliance Impact: In the past, rebates have been a cause of great impact to Tax & Rev. While this distribution to residents will be coming from DFA, the information they will use to determine the distribution will be coming from income tax returns received and processed by Tax & Rev. Regardless of where the distribution is coming from, Tax & Rev will expect that calls and questions about return status would be increased as the return would be the basis for the distribution. The peak volume during rebate issuance in the past was about 50,000 calls per week, which caused Tax & Rev's Audit and Compliance Division (ACD) to take revenue generating employees off audits and collections to deal with the severe volume of calls. Tax & Rev notes that there is no appropriation to either Tax & Rev or to DFA to implement this legislation. Tax & Rev requested a non-recurring special appropriation for bill implementation that was included in the Executive budget recommendation, but was not included in the LFC recommendation.

Because this rebate is to be processed by DFA, implementing this bill will have a low impact on Tax & Rev's Information Technology Division (ITD), approximately 50 hours or about two weeks and $11,500 of contractual costs.

The impact to Tax & Rev assumes that a Memorandum of Understanding (MOU) is established with DFA under Section 2 of the bill to efficiently produce a data file for the distribution required under Section 1.

Estimated Additional Operating Budget Impact*				**R or NR****	**Fund(s) or Agency Affected**
FY2025	**FY2026**	**FY2027**	**3 Year Total Cost**		
	$11.5--	--	$11.5	NR	Tax & Rev- ITD contractual costs

* In thousands of dollars. Parentheses ( ) indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).