

LFC Requester: _____

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO

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(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Date Prepared: 2.6.25 *Check all that apply:*
Bill Number: H198-341 Original Correction
 Amendment Substitute

Sponsor: Rep. Lente **Agency Name and Code** DFA-341
Short Title: TAX CHANGES **Number:** _____
Person Writing DelgadoL.
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		

(Parenthesis () indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	Slightly Negative	Slightly Negative	Slightly Negative	Slightly Negative	R	Section 2: All associated funds, including the General Fund, and local government distributions (Interest – all Tax Programs)
--	Slightly Positive	Slightly Positive	Slightly Positive	Slightly Positive	R	Sections 3, 5-11: General Fund (Interest pay-out all tax programs, criminal fines and penalties)
--	\$700	\$1,500	\$1,600	\$1,700	R	Section 4: General Fund (Penalty – various tax programs)

--	\$302	\$625	\$643	\$665	R	Section 4: Local Governments (Penalty - GRT, Compensating Tax and Cannabis)
--	\$2	\$5	\$5	\$5	R	Section 4: Local DWI Grant Fund (Penalty - Liquor Excise Tax)
--	<\$1	\$1	\$1	\$1	R	Section 4: Drug Court Fund (Penalty - Liquor Excise Tax)
--	\$39	\$80	\$82	\$83	R	Section 4: State Road Fund (Penalty- Combined Fuel Taxes)
--	\$1	\$2	\$2	\$2	R	Section 4: Local Government Road Fund (Penalty – Alternative Fuel Tax)
--	\$1	\$1	\$1	\$1	R	Section 4: County Government Road Fund (Penalty – Gasoline Tax)
--	<\$1	<\$1	<\$1	<\$1	R	Section 4: Motorboat Fuel Tax Fund (Penalty – Gasoline Tax)
--	\$1	\$1	\$1	\$1	R	Section 4: Municipalities (Penalty - Gasoline Tax)
--	<\$1	<\$1	<\$1	\$2	R	Section 4: Municipal Arterial Program (MAP - Local Governments Road Fund) (Penalty – Gasoline Tax)
--	\$2	\$4	\$4	\$4	R	Section 4: Corrective Action Fund (Penalty – PPL)
--	\$22	\$45	\$47	\$48	R	Section 4: Health Care Affordability Fund (Penalty – Insurance Surtax)
--	\$3	\$7	\$7	\$7	R	Section 4: Law Enforcement Protection Fund (Penalty – Insurance Premium Tax)
--	\$13	\$26	\$27	\$28	R	Section 4: Fire Protection Fund (Penalty – Insurance Premium Tax)
--	\$2	\$4	\$4	\$4	R	Section 4: Emergency Medical Services Fund (Penalty – Insurance Premium Tax)

--	<\$1	\$1	\$1	\$1	R	Section 4: Disability Health Care Facility Fund (Penalty – Health Care Quality Surcharge)
--	\$4	\$9	\$10	\$11	R	Section 4: Health Care Facility Fund (Penalty – Health Care Quality Surcharge)
--	Unknown	Unknown	Unknown	Unknown	R	Section 4: Health Care Delivery and Access Fund (Penalty – new Health Care Delivery and Access Assessment)
--	\$1	\$3	\$3	\$3	R	Section 4: Worker’s Compensation Administration Fund (Penalty - Worker’s Compensation Fee)
--	<\$1	<\$1	<\$1	<\$1	R	Section 4: Uninsured Employee Fund (Penalty – Worker’s Compensation Fee)
--	<\$1	<\$1	<\$1	<\$1	R	Section 4: Tax & Rev (Penalty – Worker’s Compensation Fee)
--	\$1	\$3	\$3	\$3	R	Section 4: Enhanced 911 Fund (Penalty – 911 Surcharge)

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
 Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

House Bill 198, introduced during the first session of the 57th Legislature in New Mexico by Derrick J. Lente, aims to make revisions to the state's tax administration laws. The bill seeks to

enhance taxpayer rights and responsibilities, particularly in the areas of installment agreements, interest rates on tax deficiencies, and penalties for tax-related violations. By increasing the thresholds for public interest and amending penalties, the bill seeks to improve compliance, streamline tax payment processes, and protect the integrity of tax administration.

This reform effort is intended to improve the state's ability to manage tax compliance and ensure fairness in tax collection.

Key Points of House Bill 198

- **Installment Agreements:**
 - The bill proposes that installment agreements exceeding \$10,000 will be accessible for public inspection.
 - Taxpayers can still be required to furnish security for payments under installment agreements.
 - Agreements made will not prevent the normal accrual of interest.
- **Interest on Tax Deficiencies:**
 - Interest applied to tax deficiencies will align with the underpayment rate established by the Internal Revenue Code.
 - Clarifications are made to ensure interest is not charged on interest or penalties.
- **Interest on Overpayments:**
 - The bill raises the minimum interest that the Taxation and Revenue Department must pay for overpayments of taxes.
- **Penalties:**
 - Stricter penalties are set for failures to pay taxes or file returns, including:
 - Increased fines for willful intent to evade taxes.
 - Enhanced penalties for assaulting department employees.
 - Hefty fines for revealing taxpayer return information.
- **Effective Dates:**
 - Provisions related to installment agreements become effective on July 1, 2025.
 - Other provisions regarding penalties and interests come into effect on January 1, 2026.

FISCAL IMPLICATIONS

DFA has reviewed TRD's analysis, adopted its estimates (table with details above), and supports its findings. TRD's fiscal impact report includes the following assessment for Sections 2 through 11. For full details, please refer to TRD's FIR.

Methodology for Estimated Revenue Impact: [Section 2]: Tax & Rev will see a reduction in the amount of interest revenue owed by delinquent taxpayers for all tax programs with the raising of the minimum threshold of interest paid on refunds from \$1 to \$10. Tax & Rev cannot predict the volume of interest payments that will be deferred in the future, but it is unlikely to be substantial. Conversely, revenue will also be decreased in waiving interest under \$10 owed by taxpayers that in good faith do not file and pay timely.

[Section 4]: Tax & Rev's estimates the revenue impact of raising the \$5 minimum late filing penalty to \$15. For tax programs that had readily available individual return data that included penalty amounts, Tax & Rev aggregated the total amount of penalty from taxpayers' penalty

amounts of \$5 for the last three fiscal years. Tax & Rev then determined the percentage of this amount of revenue to total fiscal year revenues. Tax & Rev then averaged across the sample of tax programs to arrive at 0.01% of total fiscal year revenues. Tax & Rev then applied this percentage to all the applicable tax programs under 7-1-69(A)(3) NMSA 1978, based on the Consensus Revenue Estimating Group’s (CREG) December 2024 forecast and the Department of Transportation’s forecast for various fuel and motor-way taxes that flow into various road funds. (Note: this minimum late filing penalty does not apply to Income Taxes and to Severance Taxes.) Finally, Tax & Rev calculated the difference in revenue to increase the minimum penalty amount to \$15. Tax & Rev notes that FY26 is a half-year impact with an effective date of January 1, 2026 for the change in the penalty.

To the extent that increasing the minimum penalty to \$15 or in the case of willful intent to evade taxes, increasing the penalty from \$25 to \$75, has the intended effect of encouraging taxpayer compliance, these proposed changes may decrease the estimated impact to revenue from penalties presented above.

[Sections 3, 5-11]: For Section 3, Tax & Rev will pay less interest to taxpayers by raising the threshold of interest paid on refunds from \$1 to \$10. Tax & Rev cannot predict the volume of interest payments that will be deferred in the future, but it is unlikely to be substantial.

For sections 5 through 11, in the event of future criminal intent including evading taxes, tax fraud, or obstruction of tax laws, the inflation-adjusted penalties and fines will increase revenue to the General Fund. But because part of the goal of raising the level of penalty is to deter violations of the tax code, the revenue impact may be lessened.

Bill Section	Section Amended	Summary of Amendments
1	7-1-21	Increase amount of delinquent tax installment agreements available for public inspection from \$1,000 to \$10,000 to adjust for inflation since 1979
2	7-1-67	Increase minimum amount of interest taxpayers will owe to TRD from \$1 to \$10 to adjust for inflation since 1982. No longer impose interest on delinquent taxes unless the taxpayer is negligent or disregarded Tax & Rev rules and regulations
3	7-1-68	Increase minimum amount of interest TRD will pay to taxpayer from \$1 to \$10 to adjust for inflation since 1971
4	7-1-69	Increase civil penalty for failure to pay from a \$5 minimum to a \$15 minimum. Where there is willful intent to evade tax, increase minimum penalty from \$25 to \$75. These are inflation adjustments since 1970
5	7-1-71.3	Increase maximum fine for willful failure to collect and pay taxes from \$5,000 to \$10,000 to adjust for inflation since 2005
6	7-1-71.4	Increase penalty on tax preparers who prepare over 25 returns per year who do not e-file the returns from \$5 to \$10 to adjust for inflation since 2007

7	7-1-72	Increase criminal tax fraud and evasion fine from a range of \$1,000 - \$10,000 to a range of \$10,000 - \$50,000 to adjust for inflation since 1965. This is particularly important to get DAs to prosecute tax fraud and evasion that Tax & Rev investigates
8	7-1-73	Increase tax owed thresholds for criminal tax fraud sentencing. Increase each sentencing threshold by 100% for inflation since 2006
9	7-1-74	Increase fine for obstruction of tax laws for inflation since 1965. The range would increase from \$250 - \$10,000 to \$1,000 - \$25,000
10	7-1-75	Increase fine for assault or battery on a Tax & Rev employee for inflation since 1965. Increase range of fine from \$100 - \$500 to \$1,000 - \$5,000
11	7-1-76	Increase fine for revealing confidential taxpayer information from \$1,000 to \$5,000 to adjust for inflation since 1965
12	EFFECTIVE DATES	

SIGNIFICANT ISSUES

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

TRD FIR states the “Tax and Rev will update forms, instructions and publications and make information system changes to reflect the changes in the tax code. The implementation of these changes will be included in the annual tax year changes. Additionally, Tax & Rev will provide staff training on the changes and educate taxpayers on the changes. While these changes reflect one-time costs as summarized below, in the long-term, Tax & Rev will experience efficiency, and system and staff savings in particular under Sections 2 and 3. **[Sections 2 and 3]:** By increasing the threshold of imposed interest and the pay-out of interest to \$10, Tax & Rev will see savings in system processing of the interest application for all tax programs.
”

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The proposed amendments to the Tax Administration Act will not be enacted.

AMENDMENTS