

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

March 5, 2025

Bill: HB-542

Sponsor: Representatives John Block, Angelita Mejia and Rebecca Dow

Short Title: Childbirth Income Tax Credit

Description: This bill creates an income tax credit for a New Mexico resident who is not a dependent of another individual and who gives birth to a child. The credit shall be for \$7,000 for the taxable year in which the taxpayer gives birth to a child.

The taxpayer must obtain certification of eligibility for the credit from the Children, Youth, and Families Department (CYFD), and only one credit shall be certified per taxpayer per taxable year. The portion of the tax credit that exceeds a taxpayer’s income tax liability shall be refunded to the taxpayer. The credit shall be claimed within three taxable years of the end of the year in which CYFD certifies the credit.

Effective Date: Not specified; 90 days following adjournment (June 20, 2025). Applicable to taxable years beginning on or after January 1, 2025.

Taxation and Revenue Department Analyst: Sara Grubbs

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	(\$138,800)	(\$136,000)	(\$133,300)	(\$128,000)	R	General Fund - PIT

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

Methodology for Estimated Revenue Impact: The New Mexico Department of Health’s Bureau of Vital Records and Health Statistics provides the annual number of live births in New Mexico. The number of births from 2016 to 2023 has fallen by an average of 2.7% per year. To estimate the number of New Mexico residents who gives birth to a child, the Taxation and Revenue Department (Tax & Rev) used this data to forecast the number of births in FY2026 to FY2029. Tax & Rev assumes each birth is associated with a qualified taxpayer and this taxpayer receives one credit annually.

Tax & Rev used two models to estimate the annual number of eligible taxpayers: a linear regression model and a logarithmic regression model. Tax & Rev averaged the two models resulting in approximately 19,250 eligible taxpayers from FY2026 to FY2029 declining at a rate of 2% per year.

Policy Issues: Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 16 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 statutes 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.

The proposed child tax credit will erode horizontal and vertical equity in the personal income tax. By
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basing the credit on giving birth to a child, taxpayers with the same level of income are no longer treated equally thus eroding horizontal equity. The bill also creates inequity for taxpayers who adopt children or choose surrogacy. The credit also erodes vertical equity by maintaining the same level of credit regardless of income. This credit is in part duplicative of the Child Income Tax Credit, which provides a credit to every taxpayer with a dependent child every year including newborn infants. This proposal would represent an additional form of a child tax credit. Child tax credits can be an important tool to provide economic aid to families with children and is particularly helpful to lower income families.

The intent of this bill is not entirely clear. On the one hand, this tax credit could offset the cost of pregnancy and childbirth. On the other hand, this tax credit could offer financial support for the first year of life of the child. The costs associated with pregnancy, childbirth, and post-partum care can be upwards of \$19,000¹. The additional costs of raising a child in its first year can be over \$20,000 excluding childbirth costs².

Technical Issues: This bill, as written, is only available to a taxpayer “who gives birth to a child”. This language is ambiguous for several reasons.

1. Requirement for Physical Childbirth:

The current language of the bill specifies that the taxpayer must physically give birth to a child to claim credit, potentially excluding parents who become legal parents through surrogacy or adoption unless the language is amended to include these scenarios (see Other Issues).

2. Taxpayer who gives birth to a child does not claim the credit:

In a situation where the taxpayer who gave birth to the child does not claim the credit (such as a death of a parent), the child may live with their other parent who did not give birth. This parent who did not give birth but has guardianship would not receive the benefit of this credit.

5. Taxpayer Claiming Child as Dependent:

For unmarried parents, the bill should specify that the taxpayer who claims the child as a dependent for federal tax purposes is eligible for the full credit. This avoids potential disputes about who can claim the credit. Also, language concerning married filing separate filers is not included but may be necessary.

6. Adoption

A person giving birth, who then puts the child up for adoption, would still receive the credit. The bill may need to be clarified if this is not the intent.

Other Issues: If a birth certificate is sufficient for verification of credit eligibility, then CYFD’s involvement may be redundant. However, a birth certificate on its own may not be sufficient for verification for the credit as it is written because New Mexico birth certificates do not indicate if a child is adopted and do not indicate which parent gave birth to the child. Clarifying the necessity of CYFD’s role in the certification process could streamline the process.

The Department of Health’s Bureau of Vital Records and Statistics (BVRHS) records birth certificates and would have the information needed to certify this credit. However, there may be a legal issue with certifying a taxpayer’s child for the credit as it may violate closed adoption records and any associated privacy laws.

Administrative & Compliance Impact: Tax & Rev will update forms, instructions and publications and

¹ <https://www.healthsystemtracker.org/brief/health-costs-associated-with-pregnancy-childbirth-and-postpartum-care/>

² https://www.babycenter.com/family/money/first-year-baby-related-expenses_41002904

make information system changes. Staff training to administer the credit will occur. This implementation will be included in the annual tax year changes.

Tax & Rev’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 2.0 FTE of a pay band 70 and a pay band 80 at a cost of approximately \$2,500. Pay band 70 hours are estimated at time and ½ due to extra hours worked required for implementation.

For Tax & Rev’s Information Technology Division (ITD), this bill will have a moderate impact, requiring approximately 680 hours or about 4 months for an estimated staff workload cost of \$45,315. The estimate includes an interface between Tax & Rev and the Children, Youth and Families Department (CYFD). The data exchange will require coordination with the CYFD and should be implemented shortly after CYFD begins issuing certificates of eligibility so that Tax & Rev will have a record of the certificates of eligibility in GenTax, the tax system of record, when the taxpayer claims the credit on their income tax return.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2025	FY2026	FY2027	3 Year Total Cost		
--	\$2.5	--	\$2.5	NR	ASD – Operating
--	\$45.3	--	\$45.3	NR	ITD – Staff workload

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