BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 19, 2025

Bill: SB-294 **Sponsor:** Senator Heather Berghmans, Representative Christine Chandler, and Senators Angel M. Charley and Cindy Nava

Short Title: Increase Child Income Tax Credit

Description: This bill amends Section 7-2-18.34 NMSA 1978 to double the amount of credit for each qualifying child under age six.

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		
--	($42,600)	($43,700)	($44,700)	($45,700)	R	General Fund

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

Methodology for Estimated Revenue Impact: The Taxation and Revenue Department (Tax & Rev) used 2023 tax returns of taxpayers who claimed the New Mexico Child Tax Credit (CTC) to calculate the number of dependents in each adjusted gross income (AGI) range per Section 1(B). Tax & Rev then applied U.S. Census Bureau data to determine the percentage of New Mexico children under age 6 that would qualify for the CTC[1]. Approximately 6.5% of the total New Mexico population is under the age of 6 and 29% of those 18 years and younger. Tax & Rev estimates that 95% of New Mexico children under the age of 6 were claimed as a dependent by a parent or guardian for the CTC in 2023.

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 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.

The proposed child tax credit will erode horizontal equity in the state income taxes. By basing the credit on the number of qualifying children, taxpayers with the same level of income are no longer treated equally. Thus, two New Mexico residents who earn the same salary may have different tax liability given how many children they choose to have in their household. The credit will provide greater tax benefit to families with a greater number of children. However, a child tax credit is a tool to provide economic aid to families with children and is particularly helpful to lower income families. Recent changes to the

[1] U.S. Census Bureau, U.S. Department of Commerce. "Age and Sex." American Community Survey, ACS 5-Year Estimates Subject Tables, Table S0101, 2023.

federal child tax credit, for example, resulted in a drastic reduction in child poverty. While the proposed New Mexico credit may not have as dramatic an impact, the credit may be expected to have a significant impact in reducing child poverty and hunger in the state.

New Mexico has recently shown dramatic improvement in eradicating poverty, especially child poverty, as evidenced by the Supplemental Poverty Measure issued by the U.S. Census Bureau[2]. The New Mexico Child Tax Credit is one of several tax incentives that provides tax relief to families to help offset the costs of raising children and can effectively reduce poverty rates. 2023 U.S. Census data reports that although New Mexico has the highest official poverty rate in the nation for those under 18, supplemental measures at the federal and state level reduced poverty in New Mexico dramatically. New Mexico's supplemental poverty rate for those under 18, taking into account the federal child tax credit, and federal and state tax provisions and programs is 8.9%, compared to New Mexico's official poverty rate of 27.4%[3]. No other state saw as dramatic a reduction between the two measures for the period 2021 through 2023.

Technical Issues: For taxpayer and administrative clarity, Tax & Rev suggest in subsection C to add the following on line 12 after the word "six" and before the comma, "at any time during the tax year". Line 12 would then read "C. For each qualifying child under age six at any time during the tax year,".

Other Issues: Introducing an age-specific requirement necessitates additional verification steps to ensure that only eligible children under the age 6 receive the increased credit. This complicates the return review processes, requiring more resources and time to validate each claim. Currently, Tax & Rev does not systematically track or map the ages of dependents, making it challenging to verify the eligibility of each qualifying child.

This lack of systematic tracking increases the risk of errors and misreporting, placing additional burdens for verification by Tax & Rev or misuse of the credit. To address the challenges associated with the age requirement, it is recommended to separately state the credit for qualifying children under age six. This approach would allow for clearer reporting and easier verification of eligibility. By requiring taxpayers to separately state the credit amount for each qualifying child, the department can more effectively track and validate claims, reducing the risk of errors and simplifying the process.

Administrative & Compliance Impact: Tax & Rev will update forms, instructions and publications and make information system changes. Staff training to administer the credit will need to take place. This implementation will be included in the annual tax year changes.

As discussed under "Other Issues" below, Tax & Rev will require more resources to validate the claiming of this credit. This will necessitate that Tax & Rev's Revenue Processing Division (RPD) reduce the vacancy rate by 3% or 2 Pay band 60 FTEs at $75,000 per FTE.

Implementing this bill will have a moderate impact on the Information Technology Division (ITD) with approximately 480 hours or about 3 months needed at an estimated staff workload cost of $31,987.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2025	FY2026	FY2027	3 Year Total Cost		
--	$75.0	$75.0	$150.0	R	RPD - FTE

[2] The U.S. Census Bureau provides two measures of poverty: the official poverty measure and the Supplemental Poverty Measure (SPM). The official poverty measure is estimated using pretax money income. The SPM extends the official poverty measure by accounting for several government programs and geographic variations in housing expenses.
[3] U.S. Census Bureau, Current Population Survey, 2022-2024 Annual Social and Economic Supplements (CPS ASEC)

--	$31.9	--	$31.9	NR	ITD - Staff workload

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

Related Bills: Similar to HB-268 (2024 Regular Session)