

**BILL ANALYSIS AND FISCAL IMPACT REPORT**  
**Taxation and Revenue Department**

**March 18, 2025**

**Bill:** SB-398

**Sponsor:** Senators Anthony L. Thornton, Jay C. Block, Pat Boone, Steve D. Lanier, and David M. Gallegos

**Short Title:** Citizens Tax Rebate

**Description:** This bill provides, prior to 2033, a \$500 tax rebate for any citizen of the United States who is a resident and who files a New Mexico personal income tax return and is not a dependent of another taxpayer, plus an additional rebate of \$500 for that taxpayer, their spouse if filing jointly, as well as for each dependent. This rebate may be deducted from a taxpayer’s income tax liability and any excess will be refunded to the taxpayer. The rebate is not allowed for a return filed after May 31 of the year following the taxable year for which the rebate is claimed, nor is it allowed for a taxpayer who was an inmate of a public institution for more than six months during the taxable year for which the tax rebate could be claimed, or who was not physically present in New Mexico for at least six months during the taxable year for which the tax rebate could be claimed.

**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		
--	(\$695,000)	(\$696,400)	(\$697,900)	(\$699,300)	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 used personal income tax (PIT) returns from tax year 2023 to estimate the number of qualified taxpayers for this rebate. In tax year 2023, there were approximately 1.1 million PIT returns. This bill stipulates that a qualified taxpayer must be a resident, a U.S citizen, and physically present in New Mexico for at least six months during the taxable year. As such, Tax & Rev included resident and first-year resident tax returns in this analysis. Tax & Rev cannot determine if first-year residents would be physically present in New Mexico for at least six months and assumes half of these taxpayers and their dependents would qualify. Part-year residents are not physically present in New Mexico for at least six months and are excluded in this analysis as are non-residents. Tax & Rev also cannot determine the number of inmates of a public institution who would qualify for this rebate, but assumes it is negligible<sup>1</sup>.

Using the number of exemptions claimed as a proxy for the taxpayer and associated dependents, Tax & Rev estimates the number of qualified New Mexicans at 1,383,000. Tax & Rev grew the number of eligible taxpayers and dependents by the projected population growth rate provided by the University of New Mexico’s Geospatial and Population Studies<sup>2</sup> and multiplied the number of eligible recipients by the \$500 credit.

<sup>1</sup>In FY2023, approximately 0.25% of the New Mexico population was confined in a New Mexico prison. <https://nmssc.unm.edu/reports/2024/profile-of-new-mexico-prison-population-fy-2023.pdf>

<sup>2</sup> <https://gps.unm.edu/pop/population-projections.html>

**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. The 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 bill stipulates that the taxpayer must be a U.S. citizen to qualify for this rebate and excludes legal residents. This requirement erodes horizontal equity as legal residents pay personal income tax in New Mexico.

Economic theory suggests that a well-timed, temporary, and targeted fiscal stimulus can raise economic output and income in the short run. Short-term fiscal stimulus causes multiplier effects as stimulus dollars support expenditures in the economy. The multiplier effect of fiscal stimulus is debatable and a consensus among economists does not exist. It must also be noted that an income tax rebate is an expansionary fiscal policy, which may worsen inflationary pressures in the local economy.

**Technical Issues:** None.

**Other Issues:** In subsection A, the requirement that an applicant be a “citizen” of the United States to qualify for this rebate is discriminatory on its face. (*See Zobel v. Williams*, 457 U.S. 55 (1982), invalidating an Alaska law that paid rebates to residents, graduated based on the years they lived in Alaska as violative of equal protection for treating residents of Alaska disparately without any rational relationship to a state objective). To avoid an equal protection violation, Tax & Rev suggests that this rebate be provided to New Mexico PIT filers without limitation of federal citizenship or residency, e.g.: to “an individual who files a New Mexico personal income tax return” or “a taxpayer who files an individual New Mexico income tax return”.

It is unclear why the rebate must be filed by May 31 of the year the return is due, rather than April 15 or October 15. Filing by April 15<sup>th</sup> or the due date of the return, or by October 15 – the deadline for filers who seek an extension - would disallow the credit for anyone filing late. The proposed May 31 deadline unnecessarily creates conflicting timelines for rebate application. A deadline in the year the return is due is not consistent with the statute of limitations on refunds which is 3 years from the end of the calendar year when the return was originally due.

Section 7-2-12.1 NMSA addresses time constraints for claiming income tax return (PIT) rebates. Tax & Rev suggests that Section 7-1-26 NMSA describe the timelines for a taxpayer to request department review of a denied rebate, but 7-1-26(F) may need to have the word “rebate” added, e.g.: “Except as otherwise provide in Subsection G of this section, a credit, rebate, or refund of any amount...”.

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

Implementing this bill will have a high impact on Tax & Rev’s Audit and Compliance Division (ACD), at an estimated cost of \$385,900. This estimate includes the need for FTE for initial implementation as well as ongoing handling of returned mail and call center volume increase. Audit and Compliance staff will participate in testing the needed changes to the system. A recurring substantial number of phone calls, emails and office visits, and potentially call center expansion should be anticipated. This increased

taxpayer call volume may require additional staff in Tax & Rev’s call center and constituent services teams.

To trace the physical presence of residents to determine eligibility, lines on the PIT return will need to be developed. Currently, taxpayers are residents if they have domicile in the state or if they are physically present for more than 185 days in the tax year, which means there are residents who would not meet the physical presence test of this rebate. The department does not currently track this requirement nor whether taxpayers are US citizens.

Implementing this bill will have a high impact on Tax & Rev’s Revenue Processing Division (RPD). There will be an administrative impact for denials of rebates that are claimed on the tax return after the limited due dates provided in the bill. Rebate denials will increase RPD correspondence, TAP uploads, and phone calls. RPD estimates a recurring operational cost of \$258,000 to address increased suspended returns, correspondence, refund denials, printing, check processing and returned mail.

Implementing this bill will have a high impact on Tax & Rev’s Information Technology Division (ITD), requiring approximately 1,500 hours or about nine and half months (1,000 hours, just over 6 months, for the initial implementation for TY2025 and 100 hours, or just over half a month, each subsequent tax year) and \$345,000 of contractual costs (\$230,000 for the initial implementation and approximately \$23,000 each subsequent year).

Implementing this bill will have a low impact on Tax & Rev’s Administrative Services Division (ASD) and anticipates receiving emails requiring research, warrant cancellations, or affidavits at a cost of \$28,900. The rebate would be co-mingled with regular PIT refunds and could require additional time to decipher PIT refunds.

<b>Estimated Additional Operating Budget Impact*</b>				<b>R or NR**</b>	<b>Fund(s) or Agency Affected</b>
<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>	<b>3 Year Total Cost</b>		
\$230			\$230	NR	ITD – Contractual
	\$23	\$23	\$69	R	ITD – Contractual
\$385.9	--	--	\$385.9	NR	ACD – Staff resources
--	\$69	--	\$69	NR	RPD – Staff resources
--	\$258	\$258	\$516	R	RPD - Staff resources
--	\$28.9	\$28.9	\$57.8	NR	ASD – Staff resources

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