

LFC Requester: _____

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO

AgencyAnalysis.nmlegis.gov and email to billanalysis@dfa.nm.gov

(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: 2.16.25 *Check all that apply:*
Bill Number: S398-341 Original Correction
 Amendment Substitute

Sponsor: Sen. Thornton
 Sen. Block
 Sen. Boone
 Sen. Lanier
 Sen. Gallegos
Short Title: CITIZENS TAX REBATE

Agency Name and Code DFA-341
Number: _____
Person Writing Delgado L.
Phone: _____ **Email** leonardo.delgado@dfa

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					Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27	FY28	FY29		
	(\$752,000 to \$810,000)	(\$771,000 to \$827,000)	(\$783,000 to \$840,000)	(\$789,000 to \$847,000)	NR	GF- PIT

(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:

SB398 establishes a new "Citizen Income Tax Rebate" for eligible New Mexico residents. The bill provides a rebate for individuals filing a New Mexico income tax return who are not claimed as dependents on another taxpayer's return, applicable from 2025 to 2032.

The rebate structure includes:

- A base rebate of \$500 for individual taxpayers.
- An additional \$500 for each dependent claimed.
- An additional \$500 for taxpayers who are married and filing jointly.

Key highlights:

- **Eligibility:**
 - Must be a resident and citizen of the United States.
 - Must file an individual New Mexico income tax return.
 - Cannot be claimed as a dependent by another individual.
 - Additional conditions:
 - Cannot have been an inmate in a public institution for over six months during the taxable year.
 - Must have been physically present in New Mexico for at least six months during the taxable year.
- **Rebate Amount:**
 - A base rebate of \$500 for the individual taxpayer.
 - An additional \$500 for each dependent claimed.
 - An additional \$500 if the taxpayer is married and filing jointly.
- **Claim Deadline:** The rebate must be claimed by May 31 of the year following the taxable year in which it applies.
- **Deduction and Refund:**
 - The rebate can be deducted from the taxpayer's New Mexico income tax liability.
 - If the rebate exceeds the taxpayer's liability, the excess will be refunded.
- **Administration:**
 - The New Mexico department may establish specific forms and procedures for claiming the rebate.
 - The rebate will be accounted for in the state's tax expenditure budget.
- **Effective Date:** The provisions of this act apply to taxable years beginning on or after January 1, 2025.

FISCAL IMPLICATIONS

SB398 establishes a distribution of income tax rebates for New Mexico tax filers from FY26 to FY33, covering calendar years 2025 through 2032. These rebates would result in a reduction in general fund revenues over this period.

Due to data limitations, DFA estimated a potential cost range for the general fund. Using TRD's 2022 Expenditure Report and additional internal data, DFA projects the cost to be between:

- \$752 million and \$810 million in FY26,
- \$771 million and \$827 million in FY27,
- \$783 million and \$840 million in FY28,
- \$789 million and \$847 million in FY29.

This analysis anticipates continued cost growth through FY33.

Historically, New Mexico has distributed income tax rebates, most notably during the COVID-19 pandemic and recovery. At the time, the rationale was that, despite the high cost, these rebates provided critical household economic relief during a period of uncertainty and then record-high inflation. However, past rebates were structured as temporary, one-time payments. In contrast, SB398 proposes ongoing rebates through the early 2030s.

Additionally, previous rebates were issued when the state experienced significant revenue growth during the COVID-19 recovery. While Personal Income Tax (PIT) and general fund revenues are expected to continue growing, they will do so at a much slower pace. According to the December 2024 consensus estimate, projected general fund recurring growth rates are:

- 1.7% in FY25,
- 2.6% in FY26,
- 3.5% in FY27.
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These rates are significantly lower than the growth observed in previous years:

- 2.9% in FY21,
- 19.7% in FY22,
- 19.8% in FY23,
- 12.5% in FY24.

Lastly, it is important to consider that the high cost of these rebates to the general fund's PIT revenue may limit future opportunities for policy changes, such as adjustments to tax brackets, credits, or deductions.

SIGNIFICANT ISSUES

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

The administrative burden of distributing the tax rebates would all on the Taxation and Revenue Department (TRD). DFA defers to TRD to discuss the potential operational budget impact

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The distribution of income tax rebates for New Mexico tax filers from FY26 to FY33 will not occur. But the cost to the general fund revenue will also not occur.

AMENDMENTS