FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Thornton/Block/Boone/Lanier/Gallegos	**ORIGINAL DATE**	2/24/25
SHORT TITLE	Citizens Tax Rebate	**BILL NUMBER**	Senate Bill 398
		ANALYST	Graeser

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT	**$0**	**($992,000.0)**	**(1,030,000.0)**	**($1,067,000.0)**	**($1,110,000.0)**	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	**Indeterminate**	**Indeterminate**	**Indeterminate**		Recurring	**General Fund**

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information
LFC Files

Agency Analysis Received From
Department of Finance and Administration (DFA)

Agency Analysis was Solicited but Not Received From
Taxation & Revenue Department

SUMMARY

Synopsis of Senate Bill 398

Senate Bill 398 (SB398) provides a "Citizen Income Tax Rebate" for eligible New Mexico residents of about $500 per person for a seven-year period. The rebate structure includes:

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

The rebate must be claimed on a personal income tax return by May 31 of the year following the taxable year in which it applies. 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.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted. The rebate is applicable for tax years 2025 through 2032.

FISCAL IMPLICATIONS

The 2023 American Community Survey Five-Year reports DP02 and DP05 provide the following data on population in households – presumably qualifying for the $500 citizens income tax rebate.[1]

	Persons	**$500 per qualifying individual**
Population in households	2,071,840	
Householder	825,021	$412,510,500
Spouse	341,603	$170,801,500
Unmarried partner	71,198	$35,599,000
Child	604,918	$302,459,000
Other relatives	172,267	$86,133,500
Other nonrelatives	56,833	$28,416,500
		$1,035,920,000
Total Population	2,114,768	
Derived ineligible population	42,928	
Non-residents > 6 months	?	
In prison	5,421	

This bill creates a recurring tax expenditure with a significant cost. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

The Department of Finance and Administration (DFA) has estimated a significantly lower cost without fully explaining the methodology. LFC interprets DFA's methodology to limit the rebate to taxpayers currently filing. The provisions of the bill will allow any resident to file and claim the refundable rebate. Using the Taxation and Revenue Department's (TRD) 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.

TRD will incur significant expenses in administering these rebates.

SIGNIFICANT ISSUES

DFA discusses some significant features of the provisions of the bill:

> 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

[1] https://data.census.gov/table/ACSDP1Y2023.DP02?q=ACS+DP02&g=040XX00US35&moe=false

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 recuring growth rates are:

- 1.7 percent in FY25,
- 2.6 percent in FY26, and
- 3.5 percent in FY27.

These rates are significantly lower than the growth observed in previous years:

- 2.9 percent in FY21,
- 19.7 percent in FY22,
- 19.8 percent in FY23, and
- 12.5 percent 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.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the with the requirement include this tax expenditure in the annual Tax Expenditure Report required by 7-1-84 NMSA 1978 that includes data compiled from the reports from taxpayers taking the rebate and other information to determine whether the rebate is meeting its purpose.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.
- **Accountability**: Preferences should be easy to monitor and evaluate

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
Vetted: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and	X	**No interim debate.**

general policy parameters.		
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	 ? X X	Purpose can be inferred. Long term goals cannot.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	Required by 7-1-84 NMSA 1978.
Accountable: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. Public analysis Expiration date	 ? ✓	
Effective: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure. Fulfills stated purpose Passes "but for" test	 X X	
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	X	
Key: ✓ Met ✗ Not Met ? Unclear		

LG/hj