Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

FISCAL IMPACT REPORT

SPONSOR	Sens. Berghmans, Charley, and Nava/Rep. Chandler	**LAST UPDATED**	
		ORIGINAL DATE	02/12/2025
SHORT TITLE	Increase Child Income Tax Credit	**BILL NUMBER**	Senate Bill 294
		ANALYST	Faubion

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT	$0.0	($40,310.0)	($41,200.0)	($41,940.0)	($42,870.0)	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 but minimal	No fiscal impact	No fiscal impact	Indeterminate but minimal	Nonrecurring	General Fund

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

Sources of Information

LFC Files

Agency Analysis Received From
Early Childhood Education and Care Department (ECECD)

Agency Analysis was Solicited but Not Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Senate Bill 294

Senate Bill 294 doubles the existing child income tax credit for children under the age of 6.

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 tax increase goes into effect for tax year 2025. The child tax credit expires after tax year 2031.

FISCAL IMPLICATIONS

The child tax credit was claimed by nearly 239 thousand tax filers in tax year 2023, with a total expenditure of $131.2 million in FY24. To estimate the impact of doubling the credit for children under the age of 6, LFC estimated the share of New Mexico children under the age of 6 and applied that share to the total cost of the tax credit. This cost, in addition to the existing cost for the tax credit, represents a doubling of the credit for young children. U.S. Census data shows approximately 28.9 percent of children in New Mexico are under the age of 6. The estimate was grown each year by inflation estimates from S&P Global.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. 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.

SIGNIFICANT ISSUES

The child tax credit went into effect in tax year 2023. According to the *2024 Tax Expenditure Report,*[1] fifteen states including New Mexico have created their own child tax credits. New Mexico created its state Child Income Tax Credit (NM-CTC) during the 2022 legislative session, effective tax year 2023. NM-CTC is income-dependent, but available at all income levels and is fully refundable. The credit amount is annually adjusted for inflation. For tax year 2023, the credit originally ranged from $25 to $175; however, in 2023, the credit was legislatively increased for incomes under $75,000. Increasing the NM-CTC amount significantly enhanced targeting of NM-CTC to those most in need of tax relief.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually in the tax expenditure budget regarding the data compiled from the reports from taxpayers taking the credit.

ADMINISTRATIVE IMPLICATIONS

The Department of Taxation and Revenue will incur some nonrecurring costs to make changes in this credit.

[1] Tax Policy Examination – Child Income Tax Credit and Poverty Reduction, 2024 New Mexico Tax Expenditure Report, page 30

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:

<table>
<tr><th>Tax Expenditure Policy Principle</th><th>Met?</th><th>Comments</th></tr>
<tr><td>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 general policy parameters.</td><td>✗</td><td>No record of an interim committee hearing can be found.</td></tr>
<tr><td>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</td><td>✗</td><td>There are no stated purposes, goals, or targets.</td></tr>
<tr><td>Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies</td><td>✓</td><td rowspan="2">The credit must be reported publicly in the TER.

The credit does have an expiration date.</td></tr>
<tr><td>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</td><td>✓</td></tr>
<tr><td>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</td><td>?</td><td rowspan="2">There are no stated purposes, goals, or targets with which to measure effectiveness or efficiency.</td></tr>
<tr><td>Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.</td><td>?</td></tr>
<tr><td colspan="3">Key: ✓ Met ✗ Not Met ? Unclear</td></tr>
</table>

JF/hj