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

		LAST UPDATED	2/5/24
SPONSOR	Chandler	**ORIGINAL DATE**	2/2/24
SHORT TITLE	Increase Child Income Tax Credit	**BILL NUMBER**	House Bill 268
		ANALYST	Faubion

REVENUE*
(dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
PIT	-	($46,100.0)	($49,100.0)	($50,100.0)	($51,200.0)	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	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	-	$26.6	-	$26.6	Nonrecurring	**General Fund**
Total	-	$26.6	-	$26.6	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 and Education and Care Department (ECECD)
Taxation and Revenue Department (DOH)

SUMMARY

Synopsis of House Bill 268

House Bill 268 doubles the existing child income tax credit for children under the age of 6. The provisions of this bill apply to taxable years 2024 through 2031. This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or May 15, 2024, if enacted.

FISCAL IMPLICATIONS

The child tax credit goes into effect in tax year 2024; therefore, TRD does not yet have data on actual claims. To estimate the impact, LFC estimated the share of New Mexico children under the age of 6 and applied that share to the total estimated cost of the tax credit. This cost, in addition to the existing estimate for the tax credit, represents a doubling of the credit for young children. U.S. Bureau of Labor Statistics data shows 27.5 percent of children in New Mexico are under the age of 6.

TRD notes the following methodology:

> The Taxation & Revenue Department (TRD) used U.S. Census Bureau data to estimate the number of children under six that would qualify for the increased child income tax credit. Approximately 590 thousand children lived in New Mexico in 2022 with roughly 25 percent under the age of 6. TRD assumes these children would be considered as a "qualifying child." TRD then used tax return data from tax year 2018 to 2022, to estimate where these children fall within the credit adjusted gross income brackets. TRD grew the number of qualified children under six by the under-five population growth projection from 2025 to 2030 provided by the Census Bureau. TRD indexed the initial revenue impact to FY2025 and adjusted the revenue impact for FY2026 to FY2028 by the projected inflation forecast provided by the Congressional Budget Office.

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

ECECD notes the bill would provide qualifying New Mexico families with additional funds to help provide for children under the age of 6, which could improve the lives of young children in New Mexico and reduce child poverty, and secondarily, infuse additional money in New Mexico's economy.

TRD notes:

> Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 25 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. 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.

The proposed child tax credit will erode horizontal equity in the state income taxes. By basing the credit on number of qualifying children, taxpayers with 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, the child income tax credit is a tool to provide economic aid to families with children and is particularly helpful to lower income families. Recent temporary changes to the 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.

Since the child income tax credit is based on a "qualifying child" under the Internal Revenue Code (IRC), and not based on whether the child is a dependent, TRD may not be able to verify whether the child is under the age of six. TRD would assume based on the way the legislation is written, if the child turns six at any point during the taxable year, the credit would not be doubled. Many qualifying children are dependents, and for those who are, TRD will be able to verify the age based on the information provided on the return, as each dependent listed includes a date of birth. However, if the qualifying child that is not claimed as dependent, this would leave TRD unable to verify whether the taxpayer should be allowed twice the amount of the original credit, as provided under this bill.

ADMINISTRATIVE IMPLICATIONS

TRD will make information system changes and update forms and publications. These changes will be incorporated into the annual tax year implementation. Implementing this bill will have a moderate impact on TRD's Information Technology Division (ITD), approximately 480 hours or about three months and $26,640 of staff workload costs. If verification of age outside of what is provided on a tax return becomes necessary, due to uncertainty of the information provided by a taxpayer, an additional cost to source that data would be incurred. The cost of acquiring that type of data source is unknown at this time.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the credit and other information to determine whether the credit 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 general policy parameters.	×	This bill was not vetted by an interim committee.
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	×	There are no stated purpose, goals, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	The bill requires reporting.
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	✓	This bill requires public reporting and has a sunset.
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	?	There are no stated goals or purpose by which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met × Not Met ? Unclear		

JF/hg/rl/ne/al