

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 11, 2025

Bill: HB-225

Sponsor: Representatives Alan T. Martinez and Rebecca Dow

Short Title: Foster Parent Tax Credit

Description: This bill adds a new section to the Income Tax Act providing for a foster parent income tax credit. This credit is equal to \$100 for each week and for each child the taxpayer fosters in the taxable year. A taxpayer must apply for certification of eligibility from the Children, Youth and Families Department (CYFD). A taxpayer allowed to claim this credit must claim it within three taxable years from the end of the year in which CYFD certifies the credit, and any portion of the credit that exceeds a taxpayer’s income tax liability is to be refunded to the taxpayer.

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 | | |
| -- | (\$6,700- \$8,900) | (\$6,700- \$8,900) | (\$6,700- \$8,900) | (\$6,700- \$8,900) | R | General Fund |

* In thousands of dollars. Parentheses () indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: To estimate the number of eligible foster children, the Taxation and Revenue Department (Tax & Rev) used data from the New Mexico Children, Youth, and Families Department (CYFD). In 2024, there were 1,714 foster children placed in a relative or non-relative foster home. Tax & Rev assumes each child would qualify a taxpayer to receive this credit.

Section 1(B) states that this credit is available for each child at an amount equal to \$100 per week or aggregated for a full year would mean a maximum of \$5,200 per qualified foster child. This allows an eligible taxpayer to claim this credit for a partial year or a full year. Tax & Rev has no straightforward way of determining the duration of foster parenting and assumes that half of the eligible foster parents may receive this credit for 6 months. Given this, Tax & Rev provides a range for the estimated revenue impact.

It is unknown if this bill will incentivize additional taxpayers to become foster parents, under the definition described in Section 1(H). As a result, Tax & Rev held the number of foster parent households flat.

Policy Issues: 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. 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 credit erodes horizontal equity by basing the credit on the number of foster children in a family, taxpayers with the same level of income are no longer treated equally.

New Mexico has a shortage of foster parents who can help support children facing upheaval in their homes. A foster parent must support the financial, social, and psychological needs of foster children, which comes at a cost.. Besides being a moral good to support foster parent households, keeping foster children in a home environment may reduce social costs over the long-term by reducing social, economic, and psychological problems that children who remain away from their biological families or otherwise lack a stable family environment may experience. In this sense, the bill is expected to have a positive future social impact, and therefore a positive fiscal impact in the long term.

Technical Issues: In Section 1 (F) on page 2 and 3, the taxpayer can claim the credit withing 3 years from the end of the calendar year when the credit was certified. Since the application to CYFD isn't required to be filed within a certain time, this could go past the Statute of Limitations set in 7-1-26 NMSA 1978 which requires a refund to be applied for within 3 years from the end of the year in which the return was originally due. Tax & Rev suggests on page 3, line 3, that "three" be changed to "one" and "years" to be changed to "year" and "of" be changed to "from", so that line 3 reads: "one taxable year from the end of the year in which the . . ." The change will also make the fiscal impact easier to predict.

Other Issues: Section 1 (B), page 1, line 24 through page 2, line 2 states that \$100 shall be awarded per week for "each child." However, in Section 1 (C), page 2, line 7-8, it states that only one tax credit shall be certified per taxpayer per taxable year. Tax & Rev suggests further clarification that one tax credit is equivalent to the entire aggregate amount under Section 1 (B).

Tax & Rev suggests adding a provision that allows CYFD to establish rules if they need to add additional criteria for eligibility.

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

Tax & Rev's Administrative Services Division (ASD) will test credit sourcing and perform other systems testing. It is anticipated this work will take approximately 40 hours split between 2 FTE of a pay band 70 and a pay band 80 at a cost of approximately \$2,500. Pay band 70 hours are estimated at time and ½ due to extra hours worked required for implementation.

This proposal will have a moderate impact on Tax & Rev's Information Technology Division (ITD), with approximately 680 hours or about 4 months for an estimated staff workload cost of \$45,315. The estimate includes an electronic data exchange between Tax & Rev and CYFD.

If several bills with similar effective dates become law, there will be a greater impact to ITD, and additional staff workload costs or contract resources may be needed to complete the changes specified by the effective date(s) of each bill.

| Estimated Additional Operating Budget Impact* | | | | R or NR** | Fund(s) or Agency Affected |
|---|--------|--------|-------------------|-----------|----------------------------|
| FY2025 | FY2026 | FY2027 | 3 Year Total Cost | | |
| -- | \$2.5 | -- | \$2.5 | NR | ASD staff workload costs |

| | | | | | |
|----|--------|----|--------|----|--------------------------|
| -- | \$45.3 | -- | \$45.3 | NR | ITD Staff Workload costs |
|----|--------|----|--------|----|--------------------------|

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

Related Bills: Similar to SB-272 (2025 regular session), SB-304 (2025 regular session), SB-335 (2025 regular session)