

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 14, 2025

Bill: SB-335

Sponsor: Senator Michael Padilla & Representative Rebecca Dow

Short Title: Foster Parent & Guardian Tax Credit

Description: This bill adds a new section to the Income Tax Act enacting the foster parent and guardian income tax credit. The tax credit is equal to \$500 for each month in which the taxpayer is a foster parent or guardian for more than 50% of that month. The maximum amount of credit that may be claimed by a taxpayer in a taxable year is \$6,000. A taxpayer must apply for certification of eligibility for the credit from the Children, Youth and Families Department (CYFD). The credit must be claimed within one taxable year from the end of the year in which CYFD certifies the credit, and any portion of the credit that exceeds the taxpayer’s liability will 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		
--	(\$13,200- \$17,600)	(\$13,200- \$17,600)	(\$13,200- \$17,600)	(\$13,200- \$17,600)	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 parents, the Taxation and Revenue Department (Tax & Rev) used data from the New Mexico Children, Youth, and Families Department (CYFD). In 2024, there were 1,029 foster homes registered with CYFD. Tax & Rev assumes each home is a household with an associated taxpayer that is eligible under Section 1(H)(2).

To estimate the number of guardians, Tax & Rev used U.S. Census Bureau data for the percent of children in New Mexico that live in a household headed by a non-family member, at 1.6%¹. Tax & Rev assumes each household is associated with one tax return. Tax & Rev then indexed this percentage to the number of taxpayers who claimed the 2023 New Mexico Child Tax Credit (CTC) to calculate the number of households with a dependent child, resulting in an estimated 3,800 households². Of these households, Tax & Rev assumed 50% would qualify under Section 1(H)(3), resulting in an estimated 1,900 qualified “guardian” households.

Section 1(B) states that this credit is available for taxpayers at an amount equal to \$500 per month. This allows an eligible taxpayer to claim this credit for a partial year or a full year. Tax & Rev presents the fiscal impact as a range with an assumption on the lower end that 50% of eligible foster parents or guardians may receive this credit for 6 months while the remainder are eligible for a full year. The upper end of the range assumes that all foster and guardian households are eligible for a full year of the credit.

¹ U.S. Census Bureau, U.S. Department of Commerce. "Children Characteristics." American Community Survey, ACS 5-Year Estimates Subject Tables, Table S0901, 2023.

² For more information on the Child Tax Credit see 2024 Tax Expenditure Report; <https://www.tax.newmexico.gov/forms-publications/>

It is unknown if this bill will incentivize additional taxpayers to become foster parents or guardians, under the definitions described in Section 1(H)(2) and (3). As a result, Tax & Rev held the number of foster parent or guardian households flat in the fiscal impact outlook.

Policy Issues: 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 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, thus taxpayers in similar economic circumstances are no longer treated equally.

New Mexico has a dire shortage of foster parents who can help support children facing upheaval in their homes. A foster parent or guardian must support the financial, social and psychological needs of foster children, which come at a cost. It is a moral good to support foster and guardian parent households. Furthermore, keeping at-risk children in a home environment may reduce social costs over the long-term by reducing social, economic, and psychological problems that children who lack stable care and experience trauma may experience. The proposed credit is expected to have a positive future social, and therefore fiscal, impact.

New Mexico has recently shown dramatic improvement in eradicating poverty, especially child poverty, as evidenced by the Supplemental Poverty Measure issued by the U.S. Census Bureau. This proposal may continue that progress by providing significant tax relief to families who commit to fostering or becoming a guardian for a vulnerable child.

Technical Issues: None.

Other Issues: 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 need to update forms, instructions, and publications and make information system changes. Tax and Rev will also need to establish a memorandum of understanding (MOU) and data exchange to receive tax credit certifications from CYFD. 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 bill will have a moderate impact on Tax & Rev’s Information Technology Division (ITD) of approximately 680 hours or about four months for an estimated staff workload cost of \$45,315.

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 cost
--	\$45.3	--	\$45.3	NR	ITD staff workload cost

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