

**BILL ANALYSIS AND FISCAL IMPACT REPORT**  
**Taxation and Revenue Department**

**February 21, 2025**

**Bill:** SB-397

**Sponsor:** Senators Antonio Maestas and Leo Jaramillo

**Short Title:** New Mexico Next Generation Act

**Description:** This bill enacts the New Mexico Next Generation Act and creates the Baby Bonds Fund, which would provide benefits to qualifying beneficiaries meeting the criteria set forth in the act. As related to the Taxation and Revenue Department (Tax & Rev), the bill adds an exemption to the Income Tax Act for money expended on behalf of a beneficiary pursuant to the New Mexico Next Generation Act.

**Effective Date:** July 1, 2025

**Taxation and Revenue Department Analyst:** Lucinda Sydow and Sara Grubbs

Appropriation*		R or NR**	Fund(s) Affected
FY2025	FY2026		
--	\$500,000	NR	Section 12: Next Generation Trust Fund
	\$100	NR	Section 12: Department of Finance and Administration

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

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	(None)				R	Section 10: General Fund – Exemption PIT

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

**Methodology for Estimated Revenue Impact: [Section 10]:** There is no revenue impact from this proposal as any exemption from Personal Income Tax (PIT) will not have occurred by FY2029(See Technical Issues). Even if money were transferred to beneficiaries during the forecast outlook, it is unclear what form those transfers would be in and if they would be taxable under the current Income Tax Act, 7-2-1 NMSA 1978, *et seq.*

**Policy Issues:** The provisions of the New Mexico Next Generation Act and associated funds describe “eligible expenditures” under Section 2, as “educational expenses” which is described under subsection B, on page 2, or as a down payment for a residence, which is not defined. (See Other Issues.) This describes a vast variety of possible financial mechanisms to assist the beneficiaries. The insertion in law of a future exemption under Section 10 appears premature as it is unknown what form these transfers will occur in and therefore how the exemption may need to be more explicitly written in the law.

**Technical Issues: [Section 10]:** Tax & Rev suggests under subsection A, line 10, to add the following after “taxation” and before the “.”: “pursuant to the Income Tax Act.”

Tax & Rev suggests that Section 10 have an applicability date. Per the condition in Section 4 to begin distributions July 1, 2043 to the baby bond fund, Tax & Rev suggests the following new section 14: “The provisions of Section 10 of this act apply to taxable years beginning January 1, 2043.”

The definition of “beneficiary” in this section is redundant, as the term is already defined in Section 2(A).

Beneficiary is only defined as one whose parent was a resident of New Mexico for 5 years before they were born but does not require the beneficiary to be a resident of the state. If the goal is to increase the wellbeing of New Mexicans, adding that the beneficiary themselves also be a resident would be prudent.

**Other Issues: [Section 2]:** Tax & Rev notes that under “eligible expenditure”, “educational expenses” is defined but a “down payment” does not have a definition or method of calculating an amount. These definitions may need further clarification and definition for the Department of Finance and Administration (DFA) to issue expenditures to beneficiaries.

**[Section 10]:** Tax & Rev recommends that the DFA provide the Taxation and Revenue Department with data regarding contributions eligible for the exemption to ensure that the exemption can be verified directly from the source, rather than relying solely on self-reported data. As currently written, the PIT exemption is self-reported without any cross-checks for eligibility, which can lead to potential fraud or misuse. To accomplish this Tax & Rev recommends inserting the following under Section 10 on page 8, line 1 as a new subsection: “C. The Department of Finance and Administration shall provide the Taxation and Revenue Department with data regarding contributions eligible for the exemption in an electronic format at regularly agreed-upon intervals.”

**Administrative & Compliance Impact:** This proposal presents an administration impact which by the conditions in Section 4 will occur in 2043. At the time the exemption is applicable, Tax & Rev will update forms, instructions and publications and make information system changes. Staff training to administer the exemption will take place. This implementation will be included in the annual tax year changes.

**Related Bills:** Similar to HB-7 (2025 Regular Session)