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FISCAL IMPACT REPORT

BILL NUMBER: House Bill 296

SHORT TITLE: Increase Working Family Tax Credit

SPONSOR: Lente/Parajón

LAST UPDATE: _____ **ORIGINAL DATE:** 2/5/2026 **ANALYST:** Gray

REVENUE* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
PIT	\$0.0	(\$138,700.0)	(\$141,800.0)	(\$145,000.0)	(\$148,200.0)	Recurring	General Fund

Parentheses indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

Conflicts with House Bill 264

Sources of Information

LFC Files

Agency or Agencies Providing Analysis

Taxation and Revenue Department

Agency or Agencies That Were Asked for Analysis but did not Respond

Economic Development Department

SUMMARY

Synopsis of House Bill 296

House Bill 296 (HB296) doubles the working families tax credit (WFTC) from 25 percent to 50 percent of the federal earned income tax credit (EITC). The changes apply to tax years beginning 2026.

FISCAL IMPLICATIONS

HB296 is expected to decrease recurring general fund revenue by \$138.7 million in FY27. The Taxation and Revenue Department (TRD) estimated the fiscal impact of HB296 by evaluating 2024 state income tax returns. About 199 thousand taxpayers claimed the WFTC, which HB296 doubles. TRD assumed a 2.8 percent inflation rate to capture the federal EITC from 2024 to 2025, then the agency grew the fiscal impact from FY25 to FY30 using the Congressional Budget Office's inflation forecast.

This bill expands a tax expenditure. 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 WFTC is New Mexico's largest tax incentive for working families. WFTC provides an annual benefit to offset the costs of raising children and reduce poverty. LFC estimates that WFTC eligible families with children could receive between \$1,060 to \$1,960 in additional incentives, depending on the family size. Table 1 summarizes increased WFTC amount by family type.

		Number of children			
		1	2	3+	
		<i>pre-HB296</i>	\$1,050	\$1,740	\$1,960
\$18,000		<i>post-HB296</i>	\$2,110	\$3,480	\$3,920
Increase		\$1,060	\$1,740	\$1,960	
\$30,000		<i>pre-HB296</i>	\$760	\$1,360	\$1,580
<i>post-HB296</i>		\$1,530	\$2,720	\$3,150	
Increase		\$770	\$1,360	\$1,570	
\$50,000		<i>pre-HB296</i>	\$360	\$830	\$1,050
<i>post-HB296</i>		\$730	\$1,660	\$2,100	
Increase		\$370	\$830	\$1,050	

Source: LFC Analysis

Evidence suggests that HB296 could decrease the number of New Mexico children living in poverty, improve labor market conditions, and improve long-term economic outcomes. Substantial research confirms that EITC (and state level matches like WFTC) encourage single people and primary earners in married couples to work.¹ A 2015 study found that a \$1,000 increase led to a 7.3 percentage point increase in employment and a 9.4 percentage point reduction in the share of families with after tax and transfer income in poverty.² Research also suggests that EITC can help break the intergenerational cycle of poverty. For example, children whose families received the EITC are more likely to attend post-secondary school and have positive employment outcomes in early adulthood, reducing the likelihood that their own

¹ See: Dickert, Stacy, Scott Houser, and John Karl Scholz. 1995. "The Earned Income Tax Credit and Transfer Programs: A Study of Labor Market and Program Participation." *Tax Policy and the Economy* 9; Eissa, Nada, and Jeffrey B. Liebman. 1996. ["Labor Supply Response to the Earned Income Tax Credit."](#) *Quarterly Journal of Economics* 111 (2): 605–37; Meyer, Bruce D., and Dan T. Rosenbaum. 2001. ["Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers."](#) *Quarterly Journal of Economics* 116 (3): 1063–1114.

² Hoynes, Hilary, and Ankur J. Patel. 2015. ["Effective Policy for Reducing Inequality? The Earned Income Tax Credit and the Distribution of Income."](#) NBER Working Paper 21340. Cambridge, MA: National Bureau of Economic Research.

children grow up in poverty.³

TRD notes:

2024 U.S. Census data reports that New Mexico had amongst the second highest Official Poverty Measure for children at 24.2%. But, New Mexico's Supplemental Poverty Measure (SPM) for children was 10.3%, near the national average. The SPM considers other factors, such as federal and state tax credits, housing and medical costs, and programs that provide relief to low- and middle-income families. ³ New Mexico was the only state that saw a dramatic reduction between the two measures for 2022 through 2024.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB296 conflicts with House Bill 264 (HB264), which repeals the WFTC and replaces it with an expanded earned income tax credit decoupled from the federal EITC and provides a different benefit schedule.

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

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³ Bastion, J. & Michelmore, K. (2018). The Long-Term Impact of the Earned Income Tax Credit on Children's Education and Employment Outcomes. *Journal of Labor Economics* 36(4).