FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 88

SHORT TITLE: Foster Parent Tax Credit

SPONSOR: Padilla

LAST UPDATE: ______ **ORIGINAL DATE:** 1/26/2026 **ANALYST:** Gray

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
PIT	$0	($20,700.0)	($20,700.0)	($20,700.0)	($20,700.0)	Recurring	General Fund

Parentheses indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

<u>Agency or Agencies Providing Analysis</u>
Taxation and Revenue Department
Children, Youth, and Families Department

SUMMARY

Synopsis of Senate Bill 88

Senate Bill 88 (SB88) provides a refundable tax credit to licensed foster parents. Taxpayers can claim a $500 credit each month the taxpayer is a foster parent or guardian of a child, provided the taxpayer is a foster parent or guardian for more than half of that month. The maximum amount of the credit is $6,000, and only one tax credit can be certified for all taxpayers in a household per taxable year.

CYFD will issue a dated certificate of eligibility to taxpayers that apply for this tax credit from CYFD if the department determines that the applicant meets the requirements detailed in this bill. The bill requires that the credit shall be claimed within three taxable years of the end of the year in which CYFD certifies the credit.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, which is May 20, 2026. The provisions of the bill apply to tax years beginning 2026. There is no sunset date for the credit.

FISCAL IMPLICATIONS

This bill creates a tax expenditure with a significant cost. 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.

SB88 is expected to reduce recurring general fund revenue by $20.7 million in FY27 - FY30. This analysis makes minor modifications to the Taxation and Revenue Department (TRD) estimate.

The TRD estimated the fiscal impact by multiplying the number of eligible taxpayers by the amount of the credit. The range provided by the agency reflects that some taxpayers will claim the credit for a partial year and some will claim the credit for a full year. The agency's estimated impact range is provided below:

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
PIT	$0	($13,400-$18,800)	($13,400-$18,800)	($13,400-$18,800)	($13,400-$18,800)	Recurring	General Fund

Of the estimate, the agency writes:

> To estimate the number of eligible foster parents, Tax & Rev used data from CYFD. In 2025, there were 1,075 foster homes registered with CYFD.
>
> To estimate the number of guardians, Tax & Rev used U.S. Census Bureau data that indicated that 1.6% of children in New Mexico live in a household headed by a non-family member.[1] Tax & Rev assumes each household is associated with one tax return and only one credit is certified for a household each taxable year. Tax & Rev then indexed this percentage to the number of taxpayers who claimed the 2025 New Mexico Child Tax Credit (CTC) to determine the number of households with a dependent child, resulting in an estimated 4,120 households.[2] Of these households, Tax & Rev assumed 50% would qualify as a "guardian."
>
> The credit amount is $500 for each month the individual is a foster parent or guardian, and the taxpayer must be a foster parent or guardian for more than 50% of the 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, assuming at the lower end that 50% of eligible foster parents or guardians receive the credit for six months while the remaining eligible taxpayers qualify for a full year. The upper end of the range assumes that all eligible

[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 2025 Tax Expenditure Report

> foster and guardian households qualify for the credit for a full year

Instead of presenting the fiscal impact as a range, this analysis assumes that all eligible foster and guardian households claiming the credit will qualify for the credit for a full year. Additionally, this analysis assumes that the number of foster parents and guardians increases by 10 percent because of the significant tax relief provided to families. TRD made no inducement assumption, although inducing new foster parents and guardians is the assumed intention of the legislation.

Combined, both modifications are intended to reflect the total risk to the general fund and to recognize the uncertainty in estimating the impact of this bill. For example, TRD analysis assumes that 50 percent of the households with nonrelated children would qualify as guardians. If analysts relax this assumption, total costs increase to over $31 million. It is unclear what an appropriate proportion should be, and this analysis could be updated later if additional information is received.

SIGNIFICANT ISSUES

The Children, Youth, and Families Department (CYFD) indicates the administrative costs for implementing provisions of the bill will be absorbed by existing resources and that its provisions could improve its performance measures related to recruitment and retention of foster parents. The agency notes:

> This bill fills a critical gap in support and ensures that all caregivers providing stable, loving homes receive much-needed financial relief. This approach promotes fairness and consistency in supporting all resource families.

Additionally, CYFD asserts that SB88 does not "preclude the state from increasing maintenance rates in the future." The agency goes on to point out that retaining experienced foster families is critical to maintaining a strong and reliable foster care system. TRD notes that children who grow up in stable homes "are more likely to experience long-term success in adulthood, including health and financial well-being.[3]"

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

[3] Trajectories of Housing Insecurity From Infancy to Adolescence and Adolescent Health Outcomes; Kristyn A. Pierce, MPH, et al; Pediatrics; July 1, 2024.

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.	✗	No record was found indicating this bill was vetted by an interim tax policy 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	 ✗ ✗ ✗	The bill does not include a purpose, goals, or measurable targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	Reporting is required annually.
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	 ✓ ✗	Reporting allows public analysis, but the expenditure lacks an expiration date.
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	 ? ?	Because the bill does not indicate a purpose, it is unclear whether the expenditure will be effective or efficient.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

BG/ct/cf/ct