

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

**January 23, 2024**

**Bill:** HB-166

**Sponsor:** Representatives Micaela Lara Cadena and Doreen Y. Gallegos

**Short Title:** Child Care Assistance Gross Receipts

**Description:** This bill creates a new deduction for gross receipts tax (GRT) for receipts from the sale of child care assistance services from a contract or grant with the Early Childhood Education and Care Department, and for receipts of for-profit pre-kindergarten providers for services that are provided pursuant to the Pre-Kindergarten Act. This deduction will be required to be separately reported and will require reporting to the Revenue Stabilization and Tax Policy Committee and the Legislative Finance Committee.

**Effective Date:** July 1, 2024

**Taxation and Revenue Department Analyst:** Pedro Clavijo

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2024	FY2025	FY2026	FY2027	FY2028		
--	(\$6,300)	(\$6,500)	(\$6,700)	(\$6,900)	R	General Fund
--	(\$4,200)	(\$4,300)	(\$4,500)	(\$4,600)	R	Local Governments

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

**Methodology for Estimated Revenue Impact:** The Taxation and Revenue Department (Tax & Rev) employed data from the Early Childhood Education and Care Department on for-profit contractual services and pre-kindergarten funding to estimate the revenue loss. The fiscal impacts used the GRT revenue growth from the December 2023 Consensus Revenue Estimating Group (CREG) forecast and the statewide effective GRT rate.

**Policy Issues:** The bill proposes a GRT deduction to level the playing field between for-profit and non-profit childcare assistance and pre-kindergarten service providers, serving the public interest in providing quality childcare and pre-kindergarten education to New Mexico children. For for-profit child care assistance programs, GRT may currently be passed on to families who live at or below the federal poverty line, often times resulting in a burdensome monthly payment for families who already struggle to afford child care. This deduction will establish an equitable cost between for-profit child care providers and pre-kindergarten providers and non-profit and governmental entities who are generally exempt from GRT.

While tax incentives may support particular industries or encourage specific social and economic behaviors, the proliferation of such incentives complicates the tax code. However, in this case, the tax incentive created will result in greater equity between taxpayers who provide the same services but are currently taxed differently because of their for-profit or non-profit status.

GRT rests upon the general presumption that all receipts of a person engaged in business in New Mexico are subject to GRT and that this rate represents the rate upon which the State collects taxes on transactions.<sup>1</sup> GRT represents the largest recurring revenue source for the state general fund at around 34%, about 80% of municipal revenue, and 30% of county revenue.

<sup>1</sup> Section 7-9-3.5(A)(1) NMSA 1978.

**Technical Issues:** Tax & Rev is now required by Section 7-1-84 NMSA 1978 to compile and present a tax expenditure budget, which includes the number of taxpayers that claim and the amount of claims for a tax expenditure. Deductions are seen as a tax expenditure and will be included on this report. For that reason, Tax & Rev recommends that on page 3, lines 9 through 17 are stricken in full.

**Other Issues:** None.

**Administrative & Compliance Impact:** Tax & Rev will need to update forms, instructions, and publications and make information system changes. Tax & Rev’s Administrative Services Division (ASD) anticipates this bill will take approximately 20 hours, split between two existing full-time employees, to be implemented. Tax & Rev’s Information Technology Division (ITD) estimates that implementing the bill will require approximately 220 hours or about one month and an estimated staff workload cost of \$12,210.

<b>Estimated Additional Operating Budget Impact*</b>				<b>R or NR**</b>	<b>Fund(s) or Agency Affected</b>
<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>	<b>3 Year Total Cost</b>		
--	\$1.2	--	\$1.2	NR	Tax & Rev – ASD - Operating
\$12.2	--	--	\$12.2	NR	Tax & Rev – ITD - Staff Workload Cost

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

**Related Bills:** HB137 (2023 Session)