

**Bill Analysis and Fiscal Impact Report
Taxation and Revenue Department**

February 5, 2026

Bill:
HB-106

Sponsor:
Representatives Mark Duncan and Luis M. Terrazas

Short Title:
Home-Based Child Care Income Tax Credit

Description:
This bill creates the home-based childcare income tax credit. The credit is available to individuals that do not enroll their dependent child in a state-funded or private childcare facility or pre-kindergarten program. To receive the credit, the individual must apply with the Early Childhood Education and Care Department (ECECD). A dependent is defined under Section 152 of the Internal Revenue Code (IRC), and includes children for which public assistance contributes to the support of the child. The child must be five years old or younger. The credit is \$1,000 per month that the child is not eligible to enroll in public school. The amount of the credit will be adjusted for inflation starting in taxable year 2027. The credit is refundable.

Effective Date, Applicability, and Contingency Language:
Not specified or 90 days following adjournment (May 20, 2026). Applicability – taxable years beginning on or after January 1, 2026.

Taxation and Revenue Department Analyst:
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Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non-Recurring	Fund(s) Affected
--	(\$320,000)	(\$328,600)	(\$337,500)	(\$346,600)	R	General Fund

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

Methodology for Estimated Revenue Impact:

The fiscal impact estimate relies primarily on data from the American Community Survey (ACS) 1-year estimate for 2024. Tax & Rev started with ACS table series C23008 and C14003. Using C23008, Tax & Rev estimates that approximately 37% of households with dependent children are eligible to claim the credits. Tax & Rev isolated the households defined in the ACS as one in which at least one parent is not in the labor force when the child lives with two parents, or the sole parent is not in the labor force when the child lives with one parent. For children ages birth to two years old, Tax & Rev assumes 12 months of eligibility per year, or a maximum credit of \$12,000, as these children are assumed to be ineligible for public pre-kindergarten (PreK) as administered by the ECECD.

Under Subsection B, on page 2, the credit is available only for each month in which the dependent child is not eligible to enroll in public school. Children ages three to five years are eligible to enroll in a public pre-kindergarten program for approximately nine months of the year. Accordingly, Tax & Rev assumes that children three to five would be eligible for the credit for only three months per year, or a maximum credit of \$3,000.

The bill requires the credit to be adjusted annually for inflation. Tax & Rev assumes an inflation adjustment of 2.7% per year based on the Bureau of Labor Statistics (BLS) 12-month price index for December 2024 through December 2025 to adjust the credit amount.

Policy Issues:

On November 1, 2025, New Mexico became the first state to offer universal child care (UCC), which is available to all New Mexican children. The UCC program has no income limits, copays, or fees. To achieve these goals, the Office of the Governor proposed the following¹:

- Establishing a \$12.7 million low-interest loan fund to construct, expand, and renovate child care facilities,
- Targeting growth to focus on care for infants, toddlers, low-income families, and children with special needs,
- Partnering with employers and school districts to expand child care options,
- Launching a statewide campaign to recruit licensed and registered home providers, and
- Providing for programs that commit to paying entry-level staff a minimum of \$18 per hour and offer 10 hours of care per day, five days a week, receive an incentive rate.

ECECD estimates that removing the income cap to offer UCC resulted in approximately 25,000 additional children becoming eligible for child care assistance.² Given that approximately 66% of New Mexico children have all parents in a household participating in the workforce, increased accessibility and affordability for child care will likely result in increased financial stability for households, which results in stabler homes for New Mexico's children.³

This proposal counters the efforts being made to expand access to affordable, high-quality care, and early learning in New Mexico, supporting parents' ability to work by encouraging parents not to use licensed child care and enrollment in PreK because the credit is only available when the child is not enrolled in these programs. It financially supports families who prefer—or need—to provide care at home, while universal child care investments support families who choose licensed settings. This bill provides financial support that makes not using licensed child care or the educational opportunities in PreK programs financially attractive.

New Mexico's labor force participation rate trails the national average. Encouraging more parents of children under five years of age to keep their child at home rather than to enroll them in licensed child care may run counter to the goal of increasing New Mexico's labor force participation rate.

In addition, the credit erodes horizontal equity in the personal income tax by basing the credit on a parental choice which not all parents may be able to make, thus taxpayers in similar economic circumstances are no longer treated equally. For example, some parents may need to work to provide health insurance for their family. As the bill sets eligibility to not enrolling in public schools, the credit may encourage a parent to reduce labor market work to provide home care—particularly in households near the margin where child care costs are a barrier.

The credit does not have a sunset date. Tax & Rev supports sunset dates for policymakers to review the impact of tax expenditures before extending them.

Technical Issues:

[Section 1] Subsection D - The bill should specifically identify what inflation index is to be used to adjust the credit amount. Tax & Rev suggests adding on page 3, line 5 the following: "As used in this section, "consumer price index" means the consumer price index for all urban consumers published by the United States department of labor for the month ending September 30".

¹ <https://www.governor.state.nm.us/2025/09/08/new-mexico-is-first-state-in-nation-to-offer-universal-child-care/>

² https://www.nmeccd.org/wp-content/uploads/2025/12/Universal-Child-Care-Brief-12-11-25_FINAL_REV2.pdf

³ U.S. Census Bureau. "Age of Own Children Under 18 Years in Families and Subfamilies by Living Arrangements by Employment Status of Parents." *American Community Survey, ACS 1-Year Estimates Detailed Tables, Table C23008*, <https://data.census.gov/table/ACSST1Y2024.C23008?q=parents+in+workforce+new+mexico>. Accessed on 29 Jan 2026.

Other Issues:

Tax & Rev suggests that “public school” under Subsection B be defined as a “state-funded pre-kindergarten program” so that it aligns with the eligibility criteria under subsection A.

It is unclear how ECECD will efficiently verify eligibility for this credit. While ECECD can verify enrollment in child care facilities licensed by ECECD, they may have limited information about unenrolled children. Further, eligibility requires public assistance to contribute to support of the child; it is unclear how ECECD will confirm public assistance.

Administrative & Compliance Impact:

Tax & Rev will update forms, instructions and publications and make information system changes. Staff training to administer the credit will take place. This implementation will be included in the annual tax year changes. The annual inflation adjustment to the credit will be absorbed under current staff workload.

For Tax & Rev’s Administrative Services Division (ASD), implementing this bill will require existing two FTEs, 40 hours split between pay-band eight and 10 positions for each tax program for a total of 80 hours. Pay band eight hours are estimated at time and ½ due to extra hours worked required for implementation.

For Tax & Rev’s Information Technology Division (ITD), this bill will have a moderate impact, requiring approximately 680 hours or about 4 months for an estimated staff workload cost of \$47,063. The estimate includes an interface between Tax & Rev and ECECD.

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
	\$2.7		\$2.7	NR	ASD – Staff Workload
	\$47		\$47	NR	ITD – Staff Workload

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