

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

**February 18, 2026**

**Bill:**  
HB-265

**Sponsor:**  
Representative Randall T. Pettigrew

**Short Title:**  
Taxpayer Dividend Income Tax Rebate Fund

**Description:**  
This bill creates the Taxpayer Dividend Tax Rebate Fund (Fund), to which certain excess oil and gas emergency school tax revenue will be transferred. The bill removes transfers to the Early Childhood and Care Fund, the Behavioral Health Fund, and the Severance Tax Permanent Fund. The Fund will also receive distributions from the Federal Mineral Leasing Fund.

This bill creates personal income tax (PIT) rebates for New Mexico resident PIT filers. The amount of the rebate is the total amount in the Fund in the prior calendar year divided by the number of resident PIT filers. A taxpayer who files a return after May 31 will not receive a rebate. The rebate is first applied to tax liability and the excess is refunded to the taxpayer. The bill provides that Taxation & Revenue Department (Tax & Rev) administers the Fund and will receive appropriations to provide the income tax rebate, but no appropriation is provided for in the bill. The bill also requires Tax & Rev to provide an annual report on the rebate costs and information necessary to evaluate the rebate program.

**Effective Date, Applicability, and Contingency Language:**  
Not specified or 90 days following adjournment (May 20, 2026). Applicability – The provisions of Section 2 of this act apply to taxable years beginning on or after January 1, 2026.

**Taxation and Revenue Department Analyst:**  
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**Estimated Revenue Impact\***

<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Recurring or Non- Recurring</b>	<b>Fund(s) Affected</b>
(\$61,031)	(\$42,741)	(\$108,075)	(\$205,755)	(\$190,631)	R	Section 1: Early Childhood Education and Care Trust Fund
(\$61,031)	(\$42,741)	(\$108,075)	--	--	R	Section 1: Behavioral Health Trust Fund
(\$506,600)	(\$708,800)	(\$723,600)	(\$743,000)	(\$799,700)	R	Section 1: Severance Tax Permanent Fund

\$628,662	\$794,282	\$939,750	\$948,755	\$990,331	R	Section 1: Taxpayer Dividend Income Tax Rebate Fund
(\$84,436)	(\$25,779)	(\$67,403)	(\$298,379)	(\$306,608)	R	Section 3: Early Childhood Education and Care Trust Fund
(\$84,436)	(\$25,779)	(\$67,403)	--	--	NR	Section 3: Medicaid Trust Fund
(\$729,400)	(\$1,075,900)	(\$1,178,900)	(\$1,132,100)	(\$1,182,300)	R	Section 3: Severance Tax Permanent Fund
\$898,272	\$1,127,458	\$1,313,706	\$1,430,479	\$1,488,908	R	Section 3: Taxpayer Dividend Income Tax Rebate Fund
\$1,526,924	\$1,921,799	\$2,253,456	\$2,379,234	\$2,479,239	R	Total Taxpayer Dividend Tax Rebate Fund
	(\$1,526,924)	(\$1,921,799)	(\$2,253,456)	(\$2,379,234)	R	Section 2 – Income Tax Rebates
--	(Negative, see narrative)				R	Sections 1 and 3 – Severance Tax Permanent Fund Interest to the General Fund

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

**Methodology for Estimated Revenue Impact:**

Tax & Rev applied the proposed changes to the distributions of the oil and gas emergency school tax revenue and federal mineral leasing revenues from the Consensus Revenue Estimating Group’s (CREG) December 2025 General Fund revenue forecast and the forecast for distributions to the Early Childhood Education and Care Fund, the Behavioral Health Trust Fund, and the Severance Tax Permanent Fund. Tax & Rev assumes the calendar year-end amount is comparable to the fiscal year ending amount. (See Technical Issues.) The rebate amount for each resident taxpayer is estimated using the number of resident and non-dependent filers for tax year 2024. Tax & Rev assumes of the number of resident PIT filers remains constant, with the average rebate amount from FY2027 through FY2030 being approximately \$1,615 for FY2027 \$2,034 for FY2028, \$2,385, for FY2029, and \$2,517 for (FY 2030). Tax & Rev recognizes that this rebate may incentivize more PIT filers, especially those who are not required to file. Tax & Rev cannot determine how many more taxpayers may file returns and thus assumes the number of eligible PIT filers is constant for the average rebate amount. If the number of PIT filers increases, the impact will be a decrease to the average rebate amount per PIT tax filer.

By significantly decreasing contributions to Severance Tax Permanent Fund, the bill will indirectly decrease General Fund distributions in future years. General Fund distributions from the STPF are based on the five-year average market value of the fund. Tax & Rev defers to the State Investment Council for an estimate of this impact.

### **Policy Issues:**

One of New Mexico's priorities is to provide affordable day care to all New Mexicans. On November 1, 2025, New Mexico became the first state in the nation to offer universal, no-cost childcare without any income limitations for the Child Care Assistance program. This bill moves in the opposite direction by eliminating dedicated revenue streams to the Early Childhood Education and Care Trust Fund (ECECTF). Redirecting volatile extraction-based revenues away from the ECECTF may compromise the state's ability to sustain universal childcare access and planned expansions, including efforts to increase slots for infants, toddlers, and special-needs children.

On the other hand, the proposed taxpayer rebate treats all resident tax filers equally, which proponents may characterize as enhancing horizontal equity—the principle that similarly situated taxpayers should be treated the same. Under this view, all New Mexico residents have an equal stake in the state's natural resource wealth and should share equally in its benefits, similar to the Alaska Permanent Fund dividend model. Alaska has distributed annual payments to all residents since 1982, with the 2025 dividend set at \$1,000 per person<sup>1</sup>. Research suggests the Alaska dividend has reduced poverty rates by 20-40 percent and has been particularly beneficial for Indigenous communities and rural residents.<sup>2</sup>

Rebate amounts would fluctuate annually based on extraction tax revenues and federal mineral leasing receipts that exceed a five-year rolling average. Oil and gas revenues are highly sensitive to commodity prices and production levels. Between 2020 and 2024, New Mexico's oil and gas production doubled while oil prices rose by 70 percent<sup>3</sup>, but these conditions are not guaranteed to continue. In years of declining prices or production, the fund may receive little or no revenue, resulting in limiting or eliminating rebate payments.

**[Section 2]** The proposed rebate structure avoids the administrative complications associated with issuing special rebates after the close of a tax year. Past one-time payments required significant processing due to issues such as closed bank accounts, outdated addresses, and undeliverable payments. Allowing the rebate to be claimed annually on the income tax return decreases the administrative burden for Tax & Rev, streamlines the delivery of the rebate to taxpayers and reduces the need for separate payment processes.

Requiring taxpayers to file by May 31 to receive the rebate disadvantages filers who need to request an extension to file their returns. Because New Mexico recognizes the federal extension date of October 15, many residents won't receive the rebate. Typically, residents receiving extensions are often self-employed individuals, gig workers, and small business owners who report business income on Schedule C with their Form 1040. Conditioning eligibility on a May 31 filing date effectively excludes many of these taxpayers, creating an inequitable disqualification for people whose tax situations are more complex.

### **Technical Issues:**

**[Sections 2 & 5]** Subsection B, pages 4 and 5, requires that Tax & Rev calculate the rebate amount by taking the fund balance at the end of the previous year divided by the total number of residents who filed an income tax return for that year. Section 5 states that the provisions of Section 2 are applicable to taxable years beginning after January 1, 2026. Tax & Rev would use the fund balance as of December 2026, divided

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<sup>1</sup> <https://pfd.alaska.gov/>

<sup>2</sup> <https://onlinelibrary.wiley.com/doi/full/10.1002/pop4.398>

<sup>3</sup> <https://fiscalpolicy.org/how-new-mexico-will-pay-for-universal-childcare>

by the number of income tax filers for tax year 2026. However, PIT filers will not file their 2026 tax year return until April 15, 2027. Therefore, Tax & Rev cannot calculate the rebate amount before the returns are due.

If the bill proposes applying the number of PIT filers from the last tax year to calculate a rebate amount and if the number of resident tax returns increase there is risk the amount in the fund will be exhausted. In addition, final audited fund balances will not be available until distributions attributable to the December accrual month are completed in February of the following fiscal year. Many PIT filers will have already filed their returns. In Section 5 of the bill, Tax & Rev suggests changing Section 2's effective date to "taxable years beginning on or after January 1, 2027." In Section 2, Subsection B, on page 5, line 1, change the word "calendar" to "fiscal" and on line 2, replace "that" with "the previous taxable" and, on line 3, after "year" insert "by May 31 of the subsequent year following the current tax year", so that lines 1 to 3 read: "at the end of the previous fiscal year divided by the total number of residents who filed an income tax return for the previous taxable year by May 31 of the subsequent year following the current tax year.

**[Section 2]** Page 5, Line 4 – Tax & Rev recommends that a year be specified for the statement that rebates cannot be issued after May 31 and that it be tied to a particular tax year. Tax & Rev suggests that on line 4 after "May 31" adding "of the year the tax year being filed, provided the return is timely filed'.

**[Section 2]** Page 5, Line 6 – The bill allows a taxpayer to deduct the rebate from their tax liability. However, it is not clear how the taxpayer will know the amount of the rebate. If this is the intent, the amount of the rebate should be calculated prior to the start of the filing season. If the first suggested change, which bases the calculation on the fiscal year-end balance is made to the bill, the rebate amount can be calculated and published by Tax & Rev prior to the start of the filing season.

**[Section 4]** Tax & Rev suggests adding another section to the bill that provides an effective date of July 1, 2026, for Sections 1-4. This will align with the fiscal year and the repeal of Section 9-29A-3 NMSA 1978 with the changes to the distribution in Sections 1-3.

#### **Other Issues:**

**[Section 2]** The bill stipulates under subsection B, page 4, that only resident filers may receive the rebate. Generally, an individual is resident for New Mexico income tax purposes if domiciled in New Mexico or physically present in the state for 185 days. Application of the residency rules are difficult and depend heavily on the taxpayer's specific situation, especially when refundable credits are involved. Introducing an additional refundable rebate increases the incentive for individuals with limited or ambiguous ties to New Mexico to file as residents. This adds pressure on existing administrative processes and increases the number of returns requiring review, which affects the accuracy of rebate distribution and the overall cost of the program.

#### **Administrative & Compliance Impact:**

Tax & Rev will update forms, instructions and publications and make information system changes. Staff training to administer the rebate will occur. This implementation will be included in the annual tax year changes.

This bill will have moderate impact on Tax & Rev's Administrative Services Division (ASD). It will require ceasing the distribution to the Oil & Gas – Emergency School Fund. It will also require implementing the new Taxpayer Dividend Tax Rebate Fund. This will require defining business requirements, updating revenue reports and the General Ledger, and changing year-end processes. Testing will be required to test the updates to the General Ledger and revenue. The total testing effort will consist of 200 hours split between two existing FTE's at pay-band levels eight and 10. Pay-band level eight hours are estimated at time and ½ for extra hours worked.

The bill will have a high impact on Tax & Rev’s Information Technology Department (ITD), approximately 1,500 hours or just over nine months and \$365,000 contractual costs. The work includes creating a new rebate fund and setting up an annual process to calculate and post the rebate each year based on the prior year’s fund balance and eligible filed returns.

**Estimated Additional Operating Budget Impact\***

<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>3 Year Total Cost</b>	<b>Recurring or Non-Recurring</b>	<b>Fund(s) or Agency Affected</b>
--	\$13.7	--	\$13.7	NR	ASD – Staff workload
\$115	\$250	--	\$365	NR	ITD – Staff Workload

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