

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

February 5, 2026

Bill:
HB-296

Sponsor:
Representatives Derrick J. Lente and Cristina Parajón

Short Title:
Increasing Working Family Tax Credit

Description:
This bill increases the State’s working families tax credit (WFTC) from 25% to 50% of the federal earned income tax credit (EITC).

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

Taxation and Revenue Department Analyst:
Sara Grubbs

Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non-Recurring	Fund(s) Affected
--	(\$138,700)	(\$141,800)	(\$145,000)	(\$148,200)	R	General Fund

* 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) used 2024 New Mexico income tax returns to evaluate the fiscal impact of this proposal. In tax year 2024, just under 199,000 taxpayers claimed the WFTC. This bill doubles the WFTC credit to 50% of the federal EITC.

As the federal EITC is annually adjusted for inflation, Tax & Rev calculated the incremental impact of doubling the percentage of the EITC, using the 2.8% inflationary increase to capture the federal EITC from 2024 to 2025.¹ Tax & Rev inflated the fiscal impact from FY2025 to FY2030 using the Congressional Budget Office’s inflation forecast. The fiscal impact of this credit would result in an average of \$660 for each taxpayer claiming this credit, though the credit amount varies across taxpayers based on income levels and number of dependents.

Policy Issues:

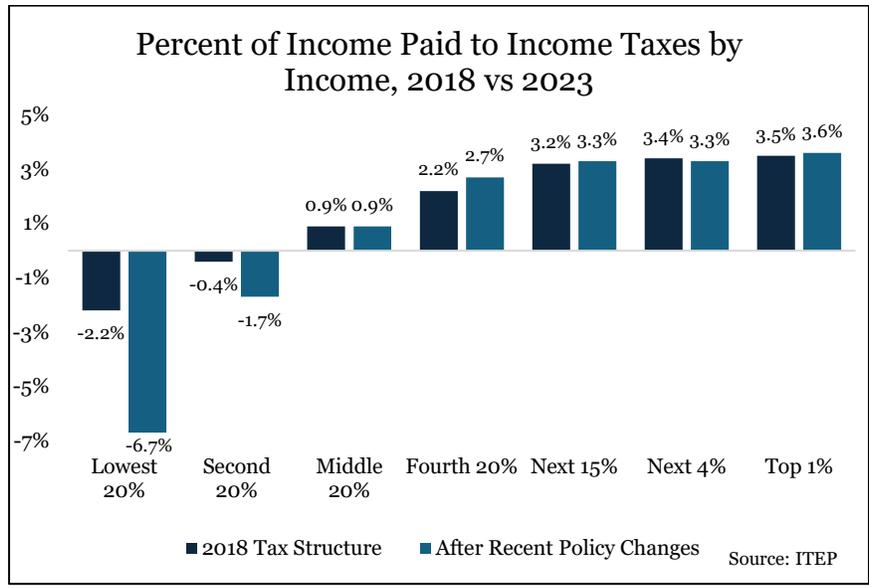
New Mexico’s WFTC, calculated using the federal EITC, is one of several tax incentives that provide tax relief to working families to offset the costs of raising children and effectively reduce poverty rates. 2024 U.S. Census data reports that New Mexico had amongst the second highest Official Poverty Measure for children at 24.2%.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

¹<https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/earned-income-and-earned-income-tax-credit-etc-tables>

² The U.S. Census Bureau provides two measures of poverty: the official poverty measure and the Supplemental Poverty Measure (SPM). The official poverty measure is estimated using pretax money income. The SPM extends the official poverty measure by accounting for several government programs and geographic variations in housing expenses.

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.

As measured by the Institute of Economic and Tax Policy (ITEP), the progressivity of New Mexico’s PIT improved dramatically between 2018 and 2023, as indicated below. Two recent expansions of the WFTC are major contributors to this improvement.



Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 16% of the state’s recurring General Fund revenue. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, that impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of “adjusted gross income” (AGI) and ties to other statutes in the federal tax code. This is referred to as “conformity” to the federal tax code. The PIT is an important tax policy tool that has the potential to further both horizontal equity by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on taxpayers’ ability to pay.

While tax incentives can support specific industries or promote desired social and economic behaviors, the growing number of such incentives complicate the tax code. Introducing more tax incentives has two main consequences: (1) it creates special treatment and exceptions within the code, leading to increased tax expenditures and a narrower tax base, which negatively impacts the General Fund; and (2) it imposes a heavier compliance burden on both taxpayers and Tax & Rev. Increasing complexity and exceptions in the tax code is generally not in line with sound tax policy.

Technical Issues:

None.

Other Issues:

None.

Administrative & Compliance Impact:

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

³ U.S. Census Bureau, Current Population Survey, 2022-2024 Annual Social and Economic Supplements (CPS ASEC)

For Tax & Rev’s Information Technology Division (ITD), implementing this bill will have a low impact on ITD, requiring approximately 220 hours or about 1 ½ months and \$15,226 of staff workload costs.

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
--	\$15.2	--	\$15.2	NR	ITD – Staff workload

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

Related Bills:

Conflicts with HB-264