BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 4, 2024

Bill: HB-268 **Sponsor:** Representative Christine Chandler

Short Title: Increase Child Income Tax Credit

Description: This bill amends Section 7-2-18.34 NMSA 1978 to double the amount of the child income tax credit for each qualifying child under age six.

Effective Date: Not specified; 90 days following adjournment (May 15, 2024). Applicable to taxable years beginning on or after January 1, 2024.

Taxation and Revenue Department Analyst: Sara Grubbs

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2024	**FY2025**	**FY2026**	**FY2027**	**FY2028**		
--	($46,100)	($49,100)	($50,100)	($51,200)	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 & Revenue Department (Tax & Rev) used U.S. Census Bureau data to estimate the number of children under six that would qualify for the increased child income tax credit. Approximately 590,000 children lived in New Mexico in 2022 with 6.1% under the age of 6[1]. Tax & Rev assumes these children would be considered as a "qualifying child". Tax & Rev then used tax return data from tax year 2018 to 2022, to estimate where these children fall within the credit adjusted gross income brackets. Tax & Rev grew the number of qualified children under six by the under five population growth projection from 2025 to 2030 provided by the Census Bureau[2]. Tax & Rev indexed the initial revenue impact to FY2025 and adjusted the revenue impact for FY2026 to FY2028 by the projected inflation forecast provided by the Congressional Budget Office[3].

Policy Issues: Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 25% 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 taxable income and ties to other statues 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.

The proposed child tax credit will erode horizontal equity in the state income taxes. By basing the credit on number of qualifying children, taxpayers with same level of income are no longer treated equally. Thus, two New Mexico residents who earn the same salary may have different tax liability given how many children they choose to have in their household. The credit will provide greater tax benefit to

[1] American Community Survey tables S0101, CP02; Current Population Survey, 2023 Annual Social and Economic Supplement (census.gov)
[2] Projected Population by Age Group and Sex, table 2, 2022 (census.gov)
[3] Analysis of CBO's February 2023 Budget and Economic Outlook | Committee for a Responsible Federal Budget (crfb.org)

families with a greater number of children. However, the child income tax credit is a tool to provide economic aid to families with children and is particularly helpful to lower income families. Recent temporary changes to the federal child tax credit, for example, resulted in a drastic reduction in child poverty. While the proposed New Mexico credit may not have as dramatic an impact, the credit may be expected to have a significant impact in reducing child poverty and hunger in the state.

Technical Issues: None.

Other Issues: Since the child income tax credit is based on a "qualifying child" under the Internal Revenue Code (IRC), and not based on whether the child is a dependent, Tax & Rev may not be able to verify whether the child is under the age of six. Tax & Rev would assume based on the way the legislation is written, if the child turns six at any point during the taxable year, the credit would not be doubled. Many qualifying children are dependents, and for those who are, Tax & Rev will be able to verify the age based on the information provided on the return, as each dependent listed includes a date of birth. However, if the qualifying child that is not claimed as dependent, this would leave Tax & Rev unable to verify whether the taxpayer should be allowed twice the amount of the original credit, as provided under this bill.

Administrative & Compliance Impact: Tax & Rev will make information system changes and update forms and publications. These changes will be incorporated into the annual tax year implementation. Implementing this bill will have a moderate impact on Tax & Rev's Information Technology Division (ITD), approximately 480 hours or about 3 months and $26,640 of staff workload costs. If verification of age outside of what is provided on a tax return becomes necessary, due to uncertainty of the information provided by a taxpayer, an additional cost to source that data would be incurred. The cost of acquiring that type of data source is unknown at this time.

Estimated Additional Operating Budget Impact*				**R or NR****	**Fund(s) or Agency Affected**
FY2024	**FY2025**	**FY2026**	**3 Year Total Cost**		
--	$26.6	--	$26.6	NR	Tax & Rev – ITD staffing

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

Related Bills: Similar to HB213 (2022 Session)