

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

January 24, 2024

Bill: SB-117

Sponsor: Senator David M. Gallegos

Short Title: Special Needs Adopted Child Tax Credit

Description: This bill amends Section 7-2-18.16 NMSA 1978 to increase the special needs adopted child tax credit from \$1,000 to \$1,500.

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		
--	(\$800)	(\$800)	(\$800)	(\$800)	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) averaged the amount of credits claimed for the last three fiscal years as reported in the 2023 Tax Expenditure Report¹. This average was then increased by the 50% increase in the credit amount.

Policy Issues: The increase to the special needs adopted tax credit will continue to erode horizontal equity in the state income taxes. By basing the credit on the number of qualifying children, taxpayers with the 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 the number of special needs children they adopt.

However, the special needs adopted tax credit provides economic aid to families whose adopted children may require specialized long-term care and supports those children remaining in a family setting. In addition, as the definition of special needs adopted child includes “difficult to place child”, this credit may incentivize more individuals to adopt children who need more specialized attention. The credit amount has not been increased since it was enacted in 2007, thus the increase to \$1,500 from \$1,000 per child provides some inflation relief for the cost of raising special needs children. As well as being a moral good, keeping special needs children in a family setting may reduce social costs over the long-term by reducing social, economic, and psychological problems that children who remain unadopted, or in foster care, may experience.

Technical Issues: None.

Other Issues: None.

Administrative & Compliance Impact: Tax & Rev will make information system changes and update forms, instructions, publications. These changes will be included in annual tax year changes.

¹ New Mexico Taxation and Revenue Department, 2023 Tax Expenditure Report, <https://www.tax.newmexico.gov/forms-publications/>, 2023.

This bill will have a low impact on Tax & Rev’s Information Technology Division (ITD), approximately 300 hours or about 2 months for an estimated staff workload cost of \$16,650.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2024	FY2025	FY2026	3 Year Total Cost		
--	\$16.6	--	\$16.6	NR	Tax & Rev - ITD

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

Related Bills: Duplicate bill SB-277 (2023 Regular Session)