FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 118

SHORT TITLE: Back-to-School Tax Holiday Price Limits

SPONSOR: Pope

LAST UPDATE: **ORIGINAL DATE:** 1/27/2026 **ANALYST:** Faubion

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
GRT	$0.0	**($230.0)**	**($235.0)**	**($240.0)**	**($245.0)**	Recurring	General Fund
	$0.0	**($150.0)**	**($150.0)**	**($155.0)**	**($155.0)**	Recurring	Local Governments

Parentheses indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency or Agencies That Were Asked for Analysis but did not Respond
Taxation and Revenue Department
NM Municipal League
NM Counties

SUMMARY

Synopsis of Senate Bill 118

Senate Bill 118 (SB 118) increases the sales price limits eligible for the back-to-school gross receipts tax deduction by 50 percent. Specifically, the bill raises the maximum deductible sales price for clothing and footwear from $100 to $150, for computers from $1,000 to $1,500, and for related computer accessories from $500 to $750. The bill does not alter the eligible items or the duration of the tax holiday, which continues to run from the last Friday in July through the following Sunday. The effective date of this bill is July 1, 2026.

FISCAL IMPLICATIONS

This is expected to reduce gross receipts tax (GRT) revenues to the state general fund and local governments by expanding the value of purchases eligible for the existing back-to-school GRT deduction. The fiscal impact is driven solely by the increase in allowable sales price thresholds; the eligible items and duration of the deduction remain unchanged. LFC used reported claims data published in the Taxation and Revenue Department's *Tax Expenditure Report* for FY23 through FY25 to estimate the impact of a 50 percent increase. The estimate is grown by an inflation factor each year.

This bill creates or expands a tax expenditure. Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

This bill updates price thresholds that have not been adjusted since the deduction was enacted in 2005. Since that time, prices for clothing, school supplies, and technology have increased substantially. By increasing the allowable sales price limits by 50 percent, the bill restores the purchasing power of the deduction closer to its original intent of reducing the cost of school necessities for families with school-age children.

As reported in the *Tax Expenditure Report*, New Mexico is one of 20 states that had a form of a tax-free holiday in 2024, an increase from 2023 when 19 states held tax-free holidays Tax-free holidays do not generally grow the local economy but rather shift consumption within the economy from one time to another time. The deduction benefits families with children by reducing the cost of school necessities, but citizens who do not attend school may also benefit from the tax-free weekend.

This bill narrows the gross receipts tax (GRT) base. Many New Mexico tax reform efforts over the last few years have focused on broadening the GRT base and lowering the rates. Narrowing the base leads to continually rising GRT rates, increasing volatility in the state's largest general fund revenue source. Higher rates compound tax pyramiding issues and force consumers and businesses to pay higher taxes on all other purchases without an exemption, deduction, or credit.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is <u>not</u> met because TRD is <u>not</u> required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

The Taxation and Revenue Department will likely incur small administrative costs to implement the bill, including updating gross receipts tax forms, publications, filer instructions, guidance materials, and internal systems to reflect the revised back-to-school deduction thresholds.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.
- **Accountability**: Preferences should be easy to monitor and evaluate

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
Vetted: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.	✗	No record of an interim committee hearing can be found.
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✗	There are no purpose statements, goals, or targets stated I the bill.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✗	Public annual reporting is not required. There is no expiration date.
Accountable: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. Public analysis Expiration date	✗	
Effective: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure. Fulfills stated purpose Passes "but for" test	?	There are no goals or targets by which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

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