NEW MEXICO
BUSINESS COALITION

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RE: Oppose **HB 11, Paid Family and Medical Leave Act**

Mr./Madame Chair and Committee Members:

The New Mexico Business Coalition (NMBC) represents hundreds of businesses and thousands of New Mexicans. We focus on making New Mexico a better place to live and work, with abundant good-paying jobs to provide for our families.

NMBC respectfully opposes HB 11, the Paid Family and Medical Leave Act. While this bill intends to support families and workers in times of need, we believe it significantly expands government control over the private sector and imposes undue financial burdens on businesses and employees, all under the assumption that the government is best suited to manage these benefits.

Important NOTE: According to IRS Revenue Ruling 2025-4, Family Leave must be reported to the IRS by employees as gross income, not wages. The State is would be required to provide employees an IRS 1099 for paid family leave of $600 or more. Typically, 1099 income in NM that is not from an employer is taxed by GRT. How many employees will enjoy the news that after being hit with the highest employment tax in New Mexico history, if they use the service, they will be taxed again for additional income received that is not their wages? How many employees will have no idea what to do with a 1099 and end up with interest and penalties from the IRS for not reporting all their income?

Other problems include:

1. Government Overreach and the Expansion of Bureaucracy. We believe that the private sector, not the government, is better equipped to decide employee benefits, including family and medical leave, based on the unique needs of their businesses and workforce.

2. Financial Burden on Employers and Employees. HB 11 mandates that employees pay 0.5% of their wages and employers contribute 0.4% of all wages. These mandatory contributions will increase payroll taxes, further straining businesses that often already operate with slim profit margins. It creates an undue financial burden on employers and may push some firms to reduce hiring or scale back operations to offset increased costs. While companies with fewer than five employees will be exempt from employer contributions, they will still be required to manage the administrative workload to ensure compliance with the new program. These additional costs and requirements will likely discourage business expansion and hiring in New Mexico.

The requirement for businesses to hold positions for employees on leave is particularly challenging for small employers, where losing one or two workers may substantially impact operations and productivity. Additionally, HB 11 allows self-employed individuals to opt into the program. However, these workers can opt out once their leave is completed, effectively allowing people to pay into the system quickly and then withdraw. This poses a risk to the program's solvency, as it invites "dine and dash" behavior where individuals contribute for short-term gains and then opt out once they have received the benefit. Other states with similar programs, such as Washington, have seen uptake rates for opt-in participants significantly higher than their standard employee contributors, further exacerbating the financial risk of a rapidly growing underfunded system.

3. Risk to Fund Solvency and Long-Term Sustainability. While the bill proposes to make the PFML program self-sustaining, there is significant risk regarding its long-term solvency. The model outlined in the bill relies on an estimated payroll tax subject to change as the program expands. In states where similar programs have been implemented, payroll tax rates have often had to be increased to maintain solvency. Washington State, for example, saw its payroll tax rate climb from 0.4% to 0.92% over the life of its program. Projections for New Mexico suggest the same trend, with the tax rate potentially rising over time as program utilization increases.

As New Mexico has one of the lowest median incomes in the country, the proposed payroll tax rate may not be sufficient to cover the program's benefits. If the fund falls into deficit, employees and businesses will be forced to bear the burden of higher taxes. Additionally, the bill includes provisions for the Workforce Solutions Department (WSD) to increase the payroll tax rate annually, which could create a cascading effect on businesses and employees already struggling with high living costs and economic uncertainty.

While we recognize the desire to support families and workers during critical life events, HB 11 represents an overreach of government power into the private sector, threatens the competitiveness of New Mexico’s businesses, and poses a significant financial risk. The government is not equipped to manage paid family and medical leave programs effectively, and there is a genuine concern that the proposed funding structure will lead to a cycle of increasing taxes and fees that businesses and employees cannot afford.

Instead of expanding government, we should promote private sector flexibility, market-driven solutions, and sustainable, voluntary benefits programs that allow businesses to thrive and workers to succeed.

We respectfully request you vote against HB 11 Paid Family and Medical Leave Act.

Thank you for considering my comments,

Carla J. Sonntag
President and CEO