FISCAL IMPACT REPORT

BILL NUMBER: House Bill 92

SHORT TITLE: Senior Income Tax Deduction

SPONSOR: Sena Cortez/Brown/Chavez, N

LAST UPDATE: ______ **ORIGINAL DATE:** 1/30/2026 **ANALYST:** Gray

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
PIT	($4,100.0)	($8,300.0)	($12,800.0)	($17,400.0)	($22,300.0)	Recurring	General Fund

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

Sources of Information

LFC Files

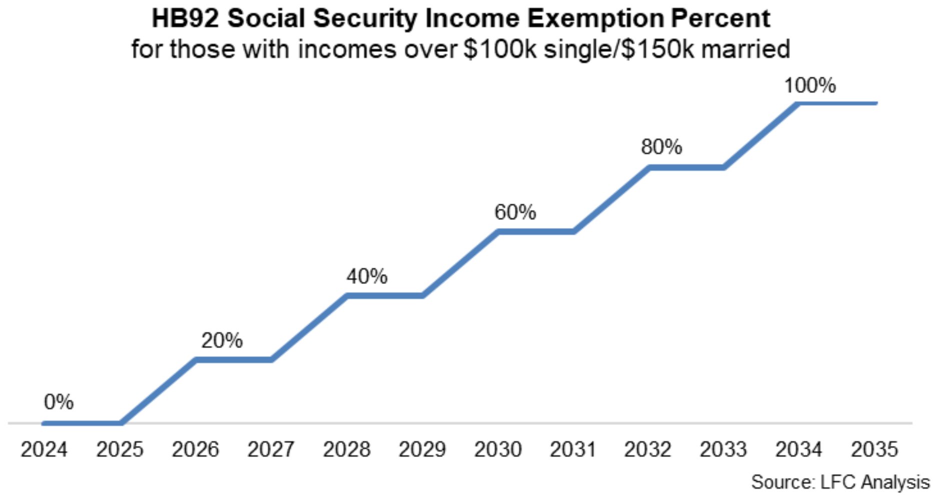
Agency or Agencies Providing Analysis
Aging and Long-Term Services Department

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

SUMMARY

Synopsis of House Bill 92

House Bill 92 (HB92) temporarily removes the income cap on the social security income tax exemption. Currently, social security income is exempt from state income tax for individuals with income of less than $75 thousand for married filers filing separately, $150 thousand for heads of household, surviving spouses, and married filers filing jointly, and $100 thousand for single filers. Under HB92, the cap would be temporarily eliminated in a phased approach according to the following chart.



Beginning in tax year 2036 and thereafter, the full exemption expires for those making over $150 thousand for married filers and $100 thousand for single filers. The exemption for taxpayers making less than those amounts is permanent.

The provisions of this bill are applicable to tax years beginning 2026.

FISCAL IMPLICATIONS

HB92 is expected to reduce recurring general fund revenue by $4.1 million in FY26, $8.3 million in FY27, and $12.8 million in FY28. When the exemption reaches 100 percent in FY34, the total cost is estimated at $43.7 million.

This bill expands a tax expenditure. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

To estimate the impact, the analysis used Internal Revenue Service's Statistics of Income to calculate the annual social security income among taxpayers with adjusted gross income over $150 thousand per year for those filing jointly and adjusted gross income over $100 thousand for single filers. An average effective tax rate of 2.8 percent was applied to estimate the average tax liability on social security. Lastly, the analysis grew the estimate by the Congressional Budget Office's inflation forecast for 2026 through 2028 as a proxy for cost-of-living adjustments.

SIGNIFICANT ISSUES

In 2024, about 132 thousand taxpayers claimed the social security income exemption under current law, with total tax relief of $86 million, about $650 per taxpayer. The current income cap targets the exemption to low- and middle-income taxpayers. For individuals the cap is $100,000, for married joint filers it is $150,000, and for married filing separately it is $75,000.

Current law exempts over 75 percent of taxpayers receiving social security income. By gradually removing the current cap and exempting all social security income, HB92 benefits higher-income individuals who tend not to depend solely on social security benefits for their income, and who have other sources of income as well. This erodes progressivity in the tax code. About two-thirds of the benefits—or $31 million at full cost in FY34—will be provided to taxpayers with incomes of between $100 thousand and $200 thousand, about 30 percent—or $14.7 million—will be provided to taxpayers with incomes of between $200 thousand and $500 thousand, and about 6 percent—or $3 million—will be provided to taxpayers with incomes of over $500 thousand.

Currently, there is a “cliff effect” at the income caps where those with incomes just under the cap do not pay income tax on their social security income, while those with incomes just over the cap do pay income tax on their social security income. This erodes horizontal equity at those income levels near the exemption caps as those with similar incomes are not treated equally.

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

BG/dw/ct