Revenue Proposal Analysis
Fiscal Year 2028

Assessing the Fiscal Impact of Tax and Revenue Proposals — November 12, 2026

Proposal Summary

The proposal creates a nonrefundable progressive income tax credit of $1,600 for single filers and $3,200 for joint filers, heads of household and surviving spouses. The proposal also replaces the six-bracket individual income tax schedule with a single rate of 4.7 percent of taxable income. The credit is available to residents who are not dependents, phases out linearly between $50 thousand and $175 thousand of adjusted gross income for single filers and between $100 thousand and $350 thousand for joint filers, and is neither refunded nor carried forward. Finally, the credit must appear in the tax expenditure budget. The provisions apply to taxable years beginning on or after January 1, 2028.

Staff estimates the proposal would reduce recurring general fund revenue by approximately $310 million in FY28, and $729 million in FY29, the first full year in effect. The two halves of the proposal pull in opposite directions, and the credit is much the larger: replacing the six brackets with a single 4.7 percent rate would by itself raise approximately $119 million, while the progressive income tax credit costs approximately $801 million, in the fully phased-in year.

Single Rate Income Tax and Progressive Tax Credit

Sponsor(s): Rep. Lente

202#: 234902.2, November 12, 2026

One-Year Cost
$310 M general fund first year, $729 M second year and on

Five-Year Cost
$3.35 B general fund

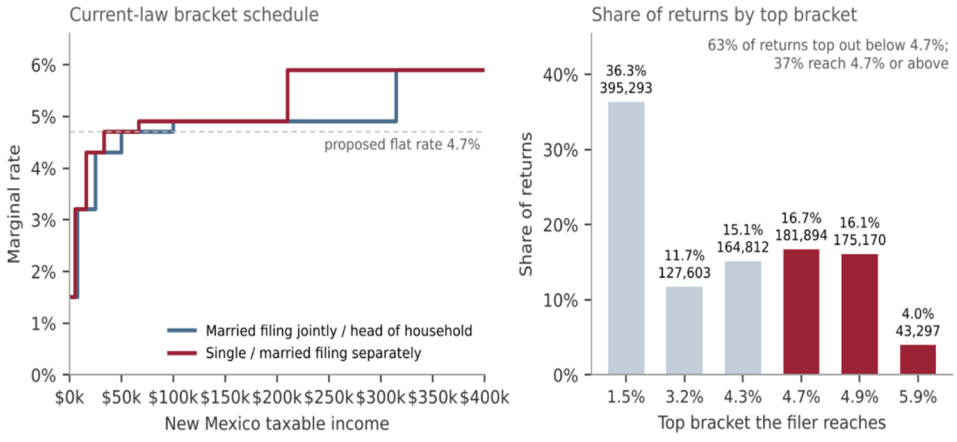
Impact by Fund (in millions)

Fund	Full Year	5 Year
General Fund recurring	($729.0)	($3,345.0)

Issues

Current law taxes individual income at 1.5, 3.2, 4.3, 4.7, 4.9 and 5.9 percent across six brackets. The proposal replaces all of them with 4.7 percent, the rate that currently applies to tax payers above $50,000 in income filing single, and $100,000 filing jointly. The credit increases the progressivity of the New Mexico personal income tax

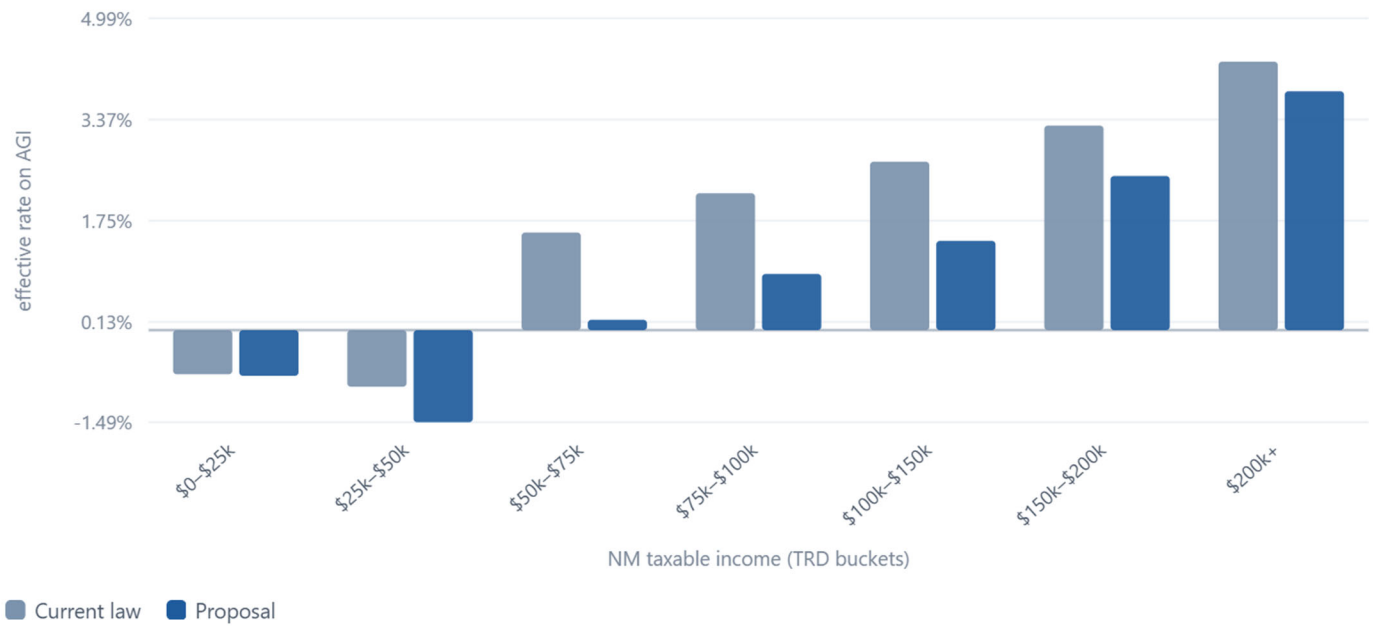
Figure 1: Current Tax Brackets and Filer Distribution



Revenue Proposal Analysis reports are short assessments of proposals presented before the Revenue Stabilization and Tax Policy Committee. Proposals are evaluated against committee guidelines, and the analysis presented here is subject to change, with agency analysis included in the official Fiscal Impact Report. This analysis is prepared for the Revenue Stabilization and Tax Policy Committee by the Legislative Finance Committee economists.

all the way though the system, meaning higher incomes pay a higher share of income in tax as demonstrated in the below figure.

Figure 2: Proposal Impacts on Effective Tax Rates by Income



The credit falls by $1,600 across $125 thousand of income for a single filer, and by $3,200 across $250 thousand for a joint filer. Both work out to 1.28 cents of credit lost per additional dollar earned. The schedule is therefore not flat: the effective and marginal tax rates in the proposed system vary in the distribution of income.

Figure 3: Progressive Tax Credit Value by Income



Impacts Per Filer. Staff analysis finds 919,013 returns affected, 82.6 percent of the 1,112,921 filed, with an average reduction of $742 among those affected and $613 across all returns. No income group pays more on average. The largest cost of the reductions as a share of the total revenue lost is in the $25 thousand to $50 thousand group accounts which represents 24.1 percent of the total cost.

Table 4: Impacts Per Filer

NM taxable income	Returns	Share of returns	Current-law eff. rate	Proposed eff. rate	Change (points)	Avg change per return	Total impact ($ millions)	Share of impact
$0–25k	574,888	51.7%	-4.03%	-5.54%	-1.51	-$99	-57.0	8.4%
$25–50k	172,863	15.5%	3.06%	0.46%	-2.60	-$949	-164.1	24.1%
$50–75k	99,605	8.9%	3.44%	1.42%	-2.03	-$1,243	-123.8	18.2%
$75–100k	63,311	5.7%	3.58%	2.25%	-1.34	-$1,161	-73.5	10.8%
$100–150k	78,154	7.0%	3.64%	2.80%	-0.84	-$1,029	-80.4	11.8%
$150–200k	40,042	3.6%	3.60%	3.16%	-0.44	-$758	-30.3	4.4%
$200k+	84,058	7.6%	2.00%	1.77%	-0.24	-$1,819	-152.9	22.4%
All groups	**1,112,921**	**100.0%**	**2.28%**	**1.61%**	**-0.66**	**-$613**	**-682.0**	**100%**

Filers below $25 thousand of taxable income face a statutory rate rising from 1.5 percent to 4.7 percent, yet their average liability falls by $99. The nonrefundable credit extinguishes the whole of their increased liability, and because it does so their existing refundable credits, the working families tax credit, the low income comprehensive tax rebate and the child income tax credit, flow through in full rather than being partly absorbed. Their average effective rate moves from negative 4.03 percent to negative 5.54 percent. With the credit, there is no longer a rationale to maintain lower marginal brackets, as lower marginal brackets at the low end only affect the effective tax rate of earners at the high end and have no impact on low-income earners who have no liability due to the credit.

Comparison to Approved Guidelines

Eligibility is defined precisely. The credit identifies filing status, residency, dependency, threshold and cap amounts and the proration for married individuals filing separately, and it states expressly that the excess is neither refunded nor carried forward. It also requires the credit to be included in the tax expenditure budget with its annual aggregate cost satisfying the committee's reporting principle.

1	**Clearly Stated Purpose**	Does the proposal identify the problem to be solved?	✓
		Does it explain why a tax policy change is the right solution?	✓
		If an economic development incentive, is the purpose included in the language of the proposal itself?	N/A
2	**Theory of Change or Logic Model**	Does the proposal explain how the tax change will achieve the intended outcome?	✗
		Does it identify the taxpayer behavior it is intended to influence?	N/A
3	**Measurable Goals and Targets**	Does the proposal identify expected outcomes?	✗
		Does it identify affected populations or activities?	✓
		Does it explain how success will be measured?	✓
4	**Fiscal Impact Analysis**	Does the proposal estimate the impact on the general fund?	✗
		Does it estimate the impact on the local government and other funds?	✓
		Does it identify the impacts as recurring or nonrecurring?	✓
5	**Expiration Date (Sunset)**	Does the proposal include a delayed repeal?	✗
6	**Expenditure Cap**	If feasible, does the proposal include an annual or aggregate cap on total cost?	✗
7	**Effective Targeting**	Does the proposal clearly identify eligible taxpayers or activities?	✓
		Does it limit benefits to those populations or activities necessary to achieve the state purpose?	✗
8	**Reporting Requirements**	Does the proposal require sufficient reporting on utilization, cost, and outcomes?	◐
		Does it provide for data collection, sharing, and analysis?	◐
		Does it identify performance measures and targets?	✗

Staff infer the purpose to be eliminating income taxes for middle income and lower individuals and families, which the proposal achieves. For a proposal of this size the purpose matters in a particular way, as reforms could be designed to raise revenue, to hold revenues constant or to provide overarching tax cuts, and to make the system more or less progressive. The proposal includes no sunset and no delayed repeal, with no cap on aggregate cost. The credit amounts and thresholds are not indexed, so the relief erodes with inflation, similar to other existing credits.

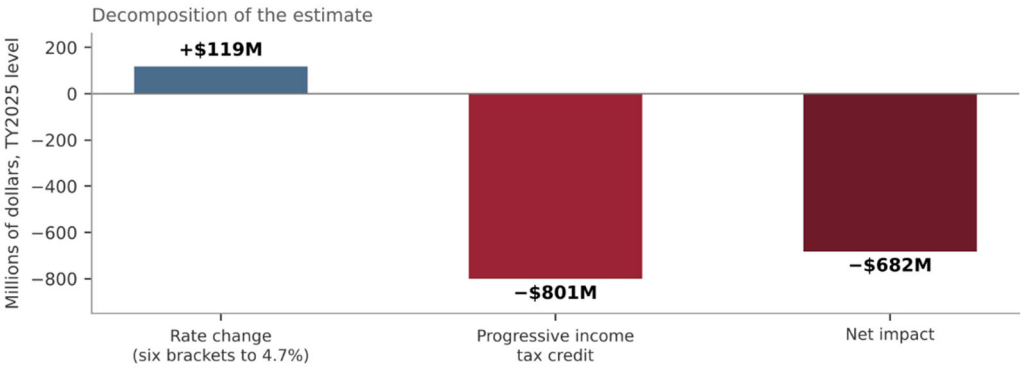
Against the committee's tax principles, the proposal improves simplicity in an obvious way: one rate and one credit replace six brackets and three schedules, and most filers would compute their tax in a single step. The tension is with adequacy. On adequacy, it removes almost thirty percent of the personal income tax, a tax supplying roughly 16 percent of recurring general fund revenue.

Fiscal Impacts

Staff estimates the proposal would reduce recurring general fund revenue by approximately $300 million in FY28 and growing to $729 million in FY29, the first full year, as the first half of the tax year represents around 42 percent of the collections in a full fiscal year. These estimates are likely overestimates, as the proposal is expected to cost $682 million using tax year 2025 data. The costs were then grown by the consensus revenue estimating group’s expectations for growth in personal income tax revenues. However, growth in personal income tax revenues occurring from wage growth would actually reduce the cost of the credit as individuals reach higher taxable income, reducing the relevant cost of the new credit and increasing the revenues raised from the single-rate tax. There is no impact on local government funds.

Methodology. The estimate is produced by staff personal income tax microsimulation against the TY2025 personal income tax extraction from the Taxation and Revenue Department. The model represents each of the department's income buckets by one filer at a representative taxable income, the bucket midpoint for the $5 thousand buckets, a truncated Pareto mean for the wide tail buckets and the bucket floor times a fitted multiple of 2.45 for the open-ended top bucket. Each bucket carries a calibration factor equal to reported average tax divided by modelled tax under the law in force, so the baseline reproduces the department's reported liability exactly in every bucket and the model is relied on for the change rather than the level. That factor absorbs apportionment for non-residents, the spread of incomes inside a bucket and the blend of single and separate returns; it runs about 0.94 to 0.99 for residents and 0.07 to 0.49 for non-residents, falling with income, which is what apportionment predicts. Fiscal year amounts rescale the tax year estimate by the August 2026 consensus personal income tax forecast divided by the baseline liability, so the path follows the consensus forecast rather than growth in the microdata. The estimate is static; no behavioral response is modelled.

Figure 5: Composition of Proposal Costs and Gains

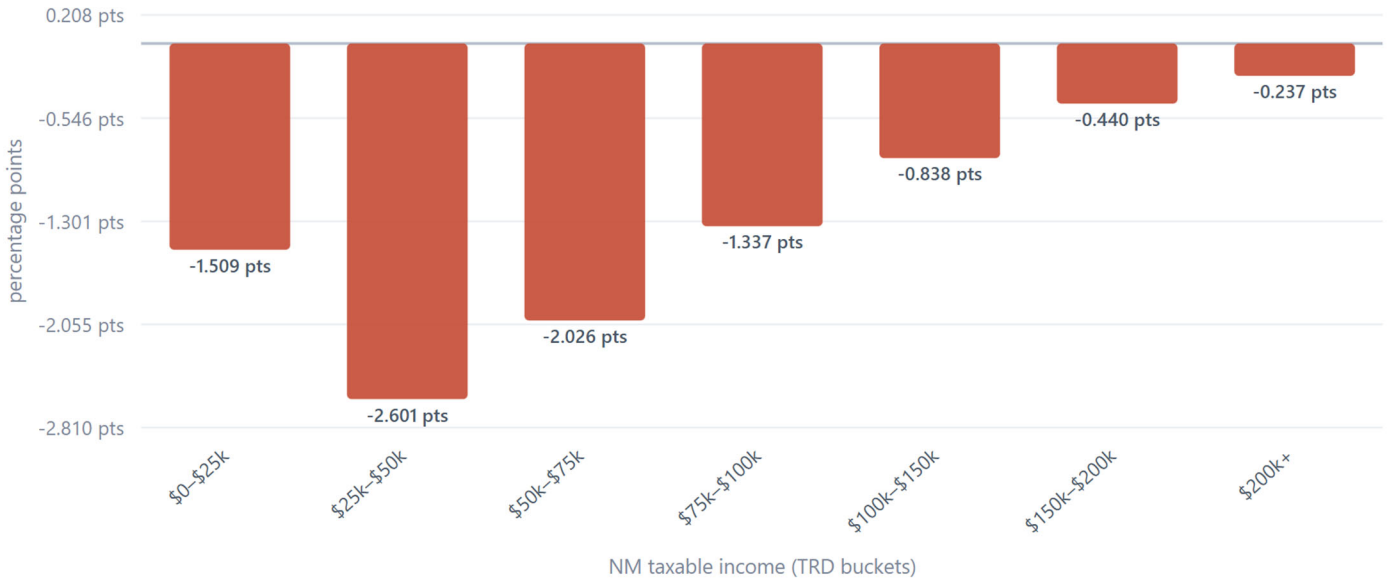


The Rate Change Raises Revenue; the Credit Is the Whole of the Loss. Decomposing the estimate separates two effects of opposite sign. Replacing the six brackets with a single 4.7 percent rate increases gross tax by approximately $119 million, because the bottom three brackets rise by more in aggregate than the top two fall. The progressive income tax credit then costs approximately $801 million. The two net to the $682 million estimate. The decomposition matters for the committee's choices: the revenue loss is not a consequence of flattening the schedule, it is a consequence of the size of the credit attached to it, and the two can be set independently. Furthermore, the cost of the credit is offset by increasing the effective tax rate on higher income individuals and out of state tax payers.

Two provisions of the draft are not modelled, and both run in the direction of overstating the cost. The draft confines the credit to residents and the run applied it to all returns; the amount at stake is approximately $0.4 million, because a non-resident's adjusted gross income is measured on total income while only the New Mexico-source part is taxed here, so almost every non-resident return is already above the phase-out cap. The draft also confines the credit to filers who are not the dependent of another individual, and the extraction carries no dependency field, so dependent filers receive the credit in the model. The credit delivers approximately $118 million of value to the 574,888 returns below $25 thousand of taxable income, which bounds that overstatement from above; staff cannot narrow it further from the data available, and the department could.

Distribution of the estimated impact, by New Mexico taxable income. Effective rate is total net tax after all credits divided by total New Mexico taxable income for the group. The effective rate falls for every group, decreasing most for the $25 thousand to $50 thousand group, by 2.60 percentage points, and least for the $200 thousand and above group, by 0.24 points.

Figure 6: Change in Effective Rate



Other Considerations

A Flat Rate Does Not Have to Mean a Revenue Cut. The two halves of the proposal are separable and the committee can set either independently. A single rate chosen to hold revenue constant against the same credit, or the same rate with a smaller credit, would produce a different fiscal result without changing the structural simplification. The revenue loss here is a consequence of the particular rate and credit chosen, not of flattening as such.

No Indexation. The rate is a percentage and keeps pace with incomes. The credit is a fixed dollar amount and its thresholds are fixed dollar amounts, so both erode with inflation and with real income growth. Over time the system drifts toward a flat 4.7 percent with progressively less offset at the bottom, and more filers drift into and then past the phase-out band. The draft contains no indexation provision and no review date.

The Interaction With Existing Refundable Credits. The relief at the bottom of the distribution depends on the working families tax credit, the low income comprehensive tax rebate and the child income tax credit remaining in place, because the nonrefundable credit can only reduce liability to zero and it is those refundable credits that carry filers below it. Any future change to them would alter the distributional result of this proposal without touching its text.

Rate Competitiveness and State Rankings. At 4.7 percent the proposed single rate would sit near but above neighboring states. For example, Arizona has a 2.5 percent flat rate, Colorado a 4.4 percent flat rate, Utah a 4.5 percent flat rate and Oklahoma a 4.5 percent top rate, while falling below Idaho's 5.3 percent rate. Texas and Nevada levy no individual income tax. The Tax Foundation's 2027 State Tax Competitiveness Index, which reflects state tax law as of July 1, 2026, ranks New Mexico 35th on its individual income tax component and 28th overall, and scores both the top rate and the number of brackets. The index's own recent examples bound the likely movement: Oklahoma's reduction from six brackets to three with a lower top rate improved its individual income component by 13 places. A change of this size would plausibly move New Mexico into a more competitive placement. Three qualifications belong with that estimate. The index scores the statutory top rate, so it would record 4.7 percent. The overall rank would move considerably less than the component, because individual income tax is one of five components and New Mexico's overall position is held down principally by its sales tax component, ranked 46th, which this proposal does not address. And because the credit amount and its thresholds both double for joint filers, the proposal would eliminate the existing marriage penalty, which the index treats as a negative feature.

Potential Questions

Purpose and Design

- What is the proposal intended to accomplish: simplification, a tax cut, a change in the distribution of the burden, or all three? The rate and the credit can each be set to produce very different answers.
- Is the revenue loss intended? A single rate can be chosen to hold revenue constant against the same credit. If a cut is intended, what offsetting measure or spending reduction accompanies it?
- Should the credit amounts and the phase-out thresholds be indexed? As drafted the relief erodes with inflation while the rate does not.
- Should the proposal carry a sunset or a review date? The draft requires the credit to appear in the tax expenditure budget, but sets no occasion to ask whether the structure is working.