TAXATION & REVENUE NEW MEXICO

Recent Legislative Tax Changes and Enhancing Affordability through Targeted Tax Relief

Presented to the
Federal Funding Stabilization & Affordability Subcommittee

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Outline

- Summary of 2026 Legislative Tax Changes
- Enhancing Affordability Through Targeted Tax Relief

Summary of 2026 Legislative Tax Changes

SB151 – Tax Package

- Corporate Income Tax provisions restored an estimated $111 to $121 million per year that would have been lost as a result of federal HR1 (OBBBA)
- Changes are effective Tax Year 2027
  - Decoupled from 100% first year depreciation deduction to restore estimated $10 million per year (Section 168N)
  - Decoupled from 100% first year expensing deduction for certain business property to restore estimated $80 million per year (Section 168K)
  - Decoupled from limitation on business interest to restore estimated $10 million per year (Section 163J)
  - NCTI: Adds 100% of income from a controlled foreign corporation (CFC) to CIT base to restore an estimated $11 to $21 million per year
    - Adds specific apportionment formula for CFC income

SB151 – Tax Package (Continued)

- Appropriated funds for 1% salary increase for employees of State agencies, higher ed institutions, and public schools – annual cost of $62 million
- Created $10,000 Physician Tax Credit to recruit and retain physicians – estimated to reduce PIT revenue by $35 million per year
- Extended High Wage Jobs Tax Credit for an additional 10 years (expires July 1, 2036) - reduces PIT revenue by $5 million per year
- Created GRT deduction for construction materials and labor for affordable housing projects – reduces State GRT by $6 million per year, local GRT by $4 million per year

SB151 – Tax Package (Continued)

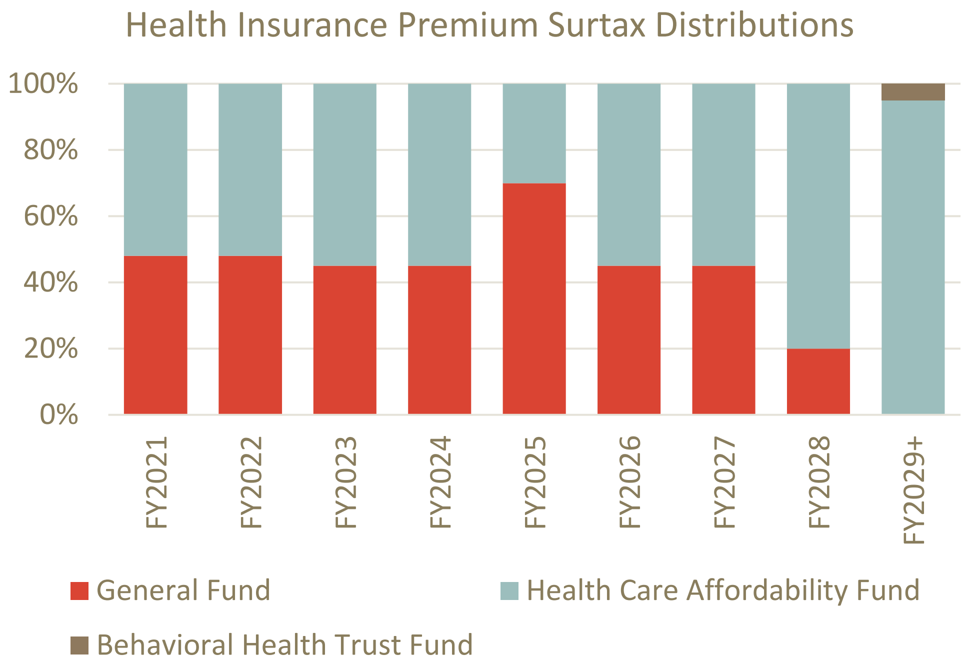
- Local Journalist Employment Tax Credit (PIT & CIT)
  - Credit equal to 30% of journalist wages paid by a local news organization
  - Credit available for up to 75 journalists
  - Statewide annual aggregate cap of $4 million
  - Journalist must live within 50 miles of coverage area
  - News organization must report on state, local, matters of public interest or other local activity
- Local News Printer Tax Credit (PIT & CIT)
  - Owners of local news printers that are already established in New Mexico
  - Credit equal to wages paid to qualified employees up to $10,000 for up to 100 employees
  - Statewide annual aggregate cap of $1.0 million

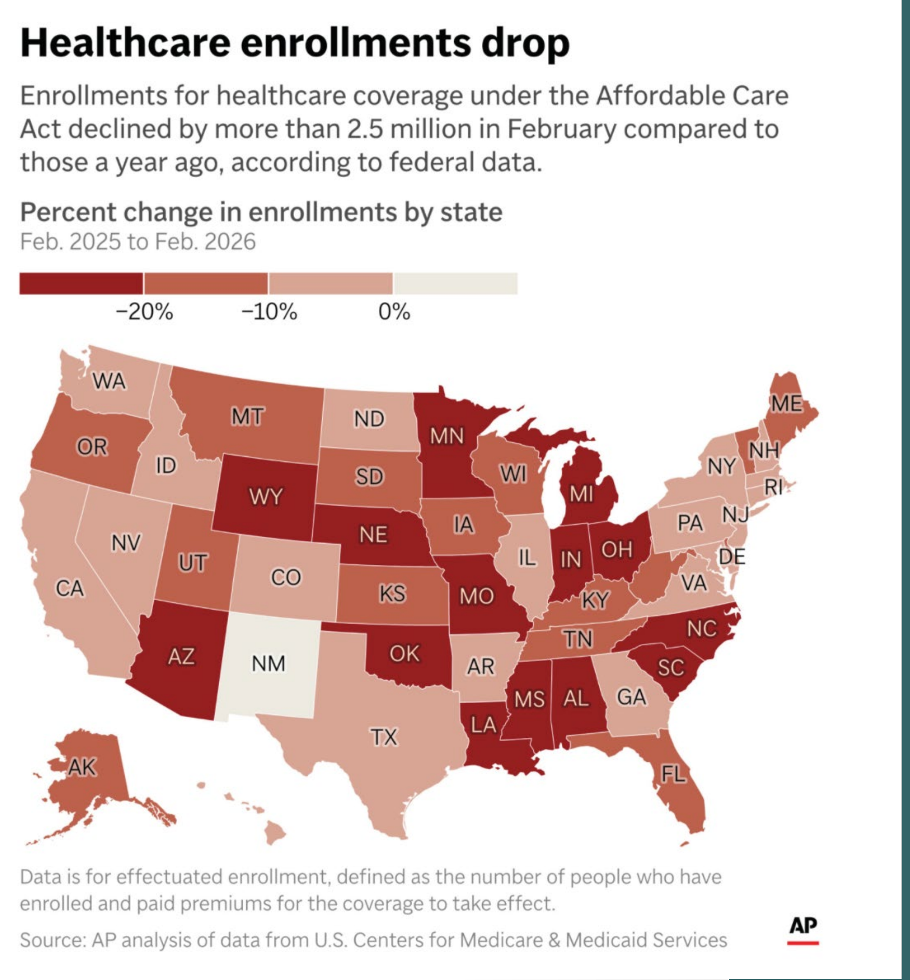
SB2 Transportation Bonds

- Authorizes State Transportation Commission to issue up to $1.5 billion in transportation bonds
- Issuances capped at $290 million per year
- Maximum of $1.1 billion principal may be outstanding at any time
- DOT will submit a list of projects to be financed to the Legislature and the Department of Finance and Administration annually with its budget request
- New revenue sources for the State Road Fund to be pledged for bond debt service:
  - Increases Weight Distance Tax by 35% to raise $38 million per year
  - Increases motor vehicle registration fees by 25% to raise $32 million per year
    - These fees had not increased since 2004 – inflation over that period was about 75%
  - New registration surcharge on electric/plug-in hybrid vehicles to raise $2 million per year for State Road Fund

HB4 Health Care Affordability Fund Distributions

- Health Care Affordability Fund was created in 2021 and receives a portion of the Health Insurance Premium Surtax
- The fund subsidizes the cost of Health Insurance Exchange plans, keeping premiums affordable
- HB4 increases the surtax earmark to the Health Care Affordability Fund to 95% and creates a new 5% earmark to the Behavioral Health Trust Fund
- Increases HCAF revenue by $144 million per year
- BHTF to receive $18 million per year starting FY2029
- Ensures New Mexicans remain insured despite expiration of federal premium tax credits in January 2026





SB101: Health Care Delivery & Access Assessment Permanent

- Assessment is a Medicaid provider fee enacted in 2024 that was scheduled to sunset after July 1, 2030
- SB101 made it permanent
- Federal HR1 (OBBBA) implemented new limitations on Medicaid provider assessments that will begin to reduce this revenue starting in FY2028
- Hospitals pay the assessment based on inpatient and outpatient services
- Assessment flows through the Medicaid program, resulting in higher federal match and higher provider reimbursement rates

HB291 Tax & Rev Clean-Up

- Allows rounding to the nearest nickel for Tax & Rev, MVD & County Treasurers
- Amends film tax credit to require a New Mexico film partner to have a substantial interest in a film production to qualify the production for film partner benefits
- Codifies that film tax credit applications are due one year after the last production expenditure incurred
- Provides that interest will not accrue if Tax & Rev extends a tax due date for natural disasters, a Governor's emergency declaration, or other similar emergency for good cause
- Removes $5 minimum late filing penalty for withholding, oil & gas proceeds, pass-through entity & workers' comp fee to prevent $5 penalty for taxpayers failing to file $0 returns when no activity occurred
- Allows a delinquent taxpayer to renew a license or permit if compliant with an installment agreement and no previous delinquencies
- Allows Tax & Rev to intercept excess delinquent property tax proceeds to offset another tax liability for the owner, such as PIT or GRT
- Allows Tax & Rev to net attorney fees from revenue distributions
- Limits Tech Jobs & R&D Credit to the first $500,000 of wages for any single employee
- Clarifies tobacco products tax on e-cigarettes
- Allows Tax & Rev to enter cooperative agreements with the Navajo Nation

Other 2026 Tax Legislation

- HB154– Amends the Advanced Energy Production Equipment Tax Credit (PIT and CIT)
  - State credit provides tax relief for the purchase of advanced energy equipment
  - Decouples definitions from federal IRC 45X and adds "fusion machines" to New Mexico eligible equipment
  - No fiscal impact – State credit remains capped at $25 million per year
- HB80 – Oil & Gas Conservation Tax Distributions
  - Phases in an increased earmark of the oil and gas conservation tax to the oil and gas reclamation fund
  - Reclamation fund will receive an additional $46 million in FY28, $76 million in FY29, $109 million in FY30
  - Reclamation fund is used to ensure proper plugging and reclamation of abandoned oil and gas wells when the well operator cannot be located or is not financially viable
- SB58- Metropolitan Redevelopment Area Property Tax Exemption Period
  - Extends the property tax exemption period in an MRA from 10 to 14 years and from 7 to 14 years from anniversary of acquisition date
- HB285 – Clarifies the disabled veteran property tax exemption. When two or more veterans share ownership, the exemption is calculated using the highest disability percentage amongst the veterans

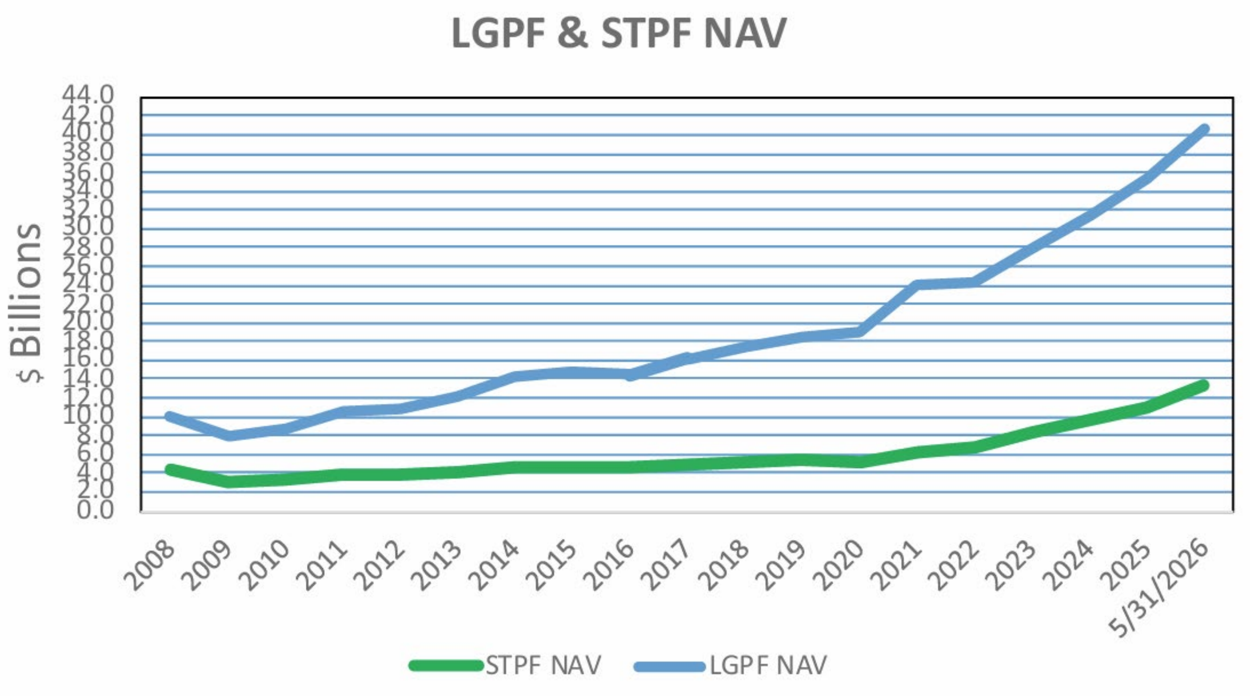
Enhancing Affordability Through Targeted Tax Relief

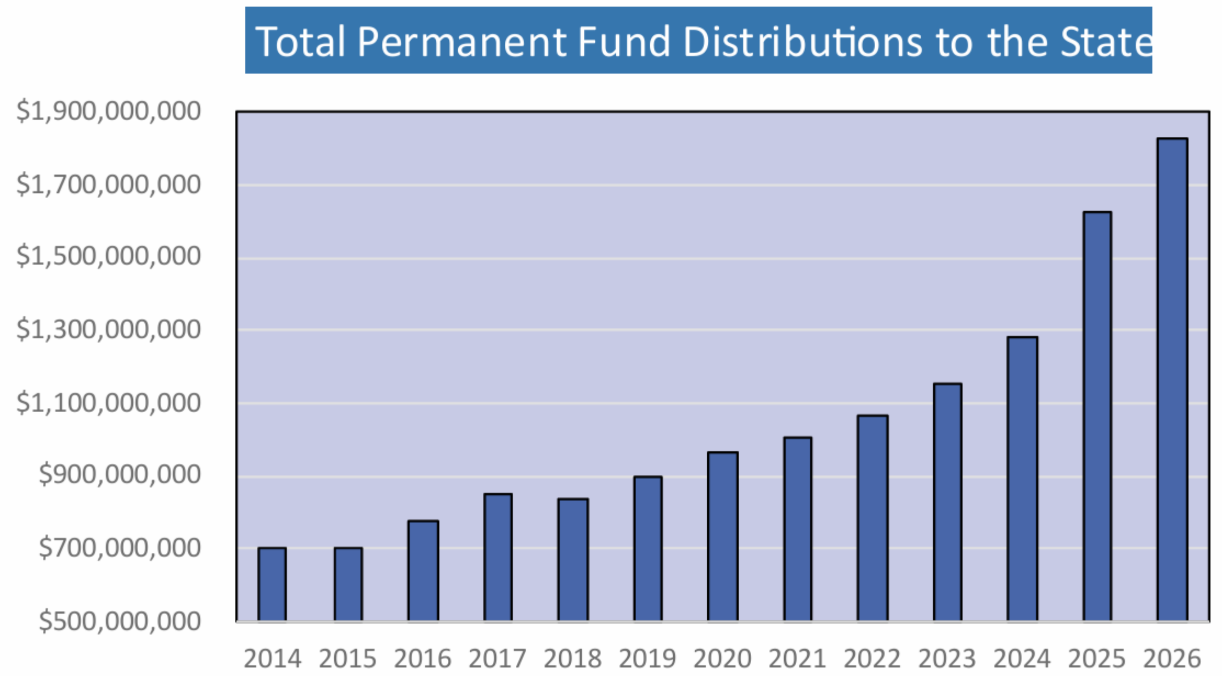
Investing in Affordability through Sound Fiscal Policy

- Lowest property tax rates in the nation
- Strong reserves insulate critical services from future revenue volatility
- Targeted tax relief that supports families and reduces poverty
- Windfall oil and natural gas revenues are transferred into investments that pave a path for future revenue adequacy – preventing future tax increases
  - Land Grant Permanent Fund and Severance Tax Permanent Fund
  - Early Childhood Education Trust Fund
  - Behavioral Health Trust Fund
  - Medicaid Trust Fund

Permanent Fund Interest Earnings will Shield New Mexicans from Higher Taxes in the Future

- Permanent funds are on track to surpass $100 billion NAV by 2030 – becoming the largest sovereign wealth fund
- By 2030, investment earnings will contribute more to the State general fund than severance taxes or income taxes.
  - Investment earnings will prevent the need for future tax increases as oil production wanes
- Permanent fund interest earnings are an incredibly stable source of revenue vs. volatile severance taxes
- Early Childhood Education Trust Fund created in 2020 has allowed universal pre-kindergarten to be offered without General Fund support





Maintaining Health Care Affordability

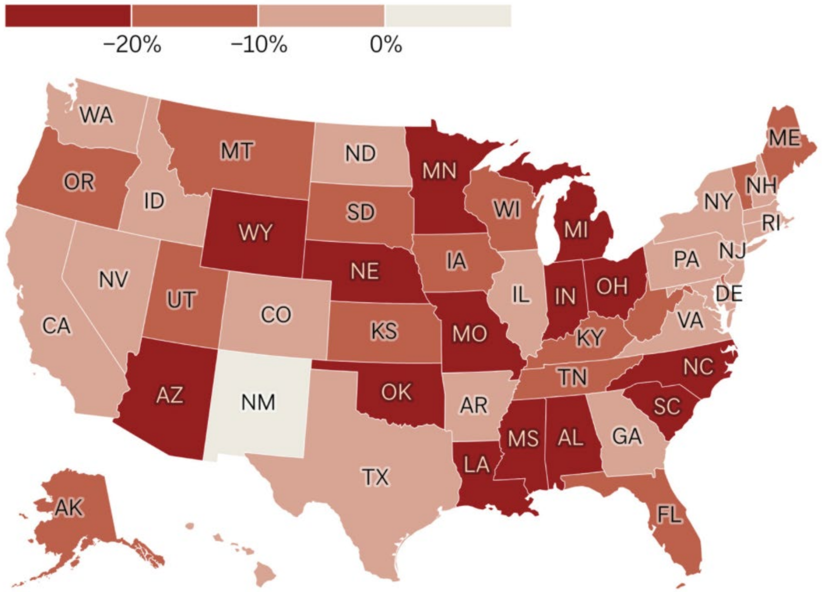
- 2021 legislation created a 2.75% health insurance premium surtax, replacing an equivalent federal tax that was phasing out
- Revenue has been earmarked between the General Fund, the Health Care Affordability Fund (HCAF), and most recently the Behavioral Health Trust Fund
- Federal premium tax credits expired on January 1, 2026
  - Absent State intervention, this caused out-of-pocket premiums to rise
  - Impacted an estimated 22 million Americans, and at least 2.5 million Americans lost health insurance coverage so far
- HCAF balances have allowed New Mexico to subsidize the rising costs of health insurance to prevent enrollment declines experienced nationally

Healthcare enrollments drop

Enrollments for healthcare coverage under the Affordable Care Act declined by more than 2.5 million in February compared to those a year ago, according to federal data.

Percent change in enrollments by state

Feb. 2025 to Feb. 2026



Data is for effectuated enrollment, defined as the number of people who have enrolled and paid premiums for the coverage to take effect.

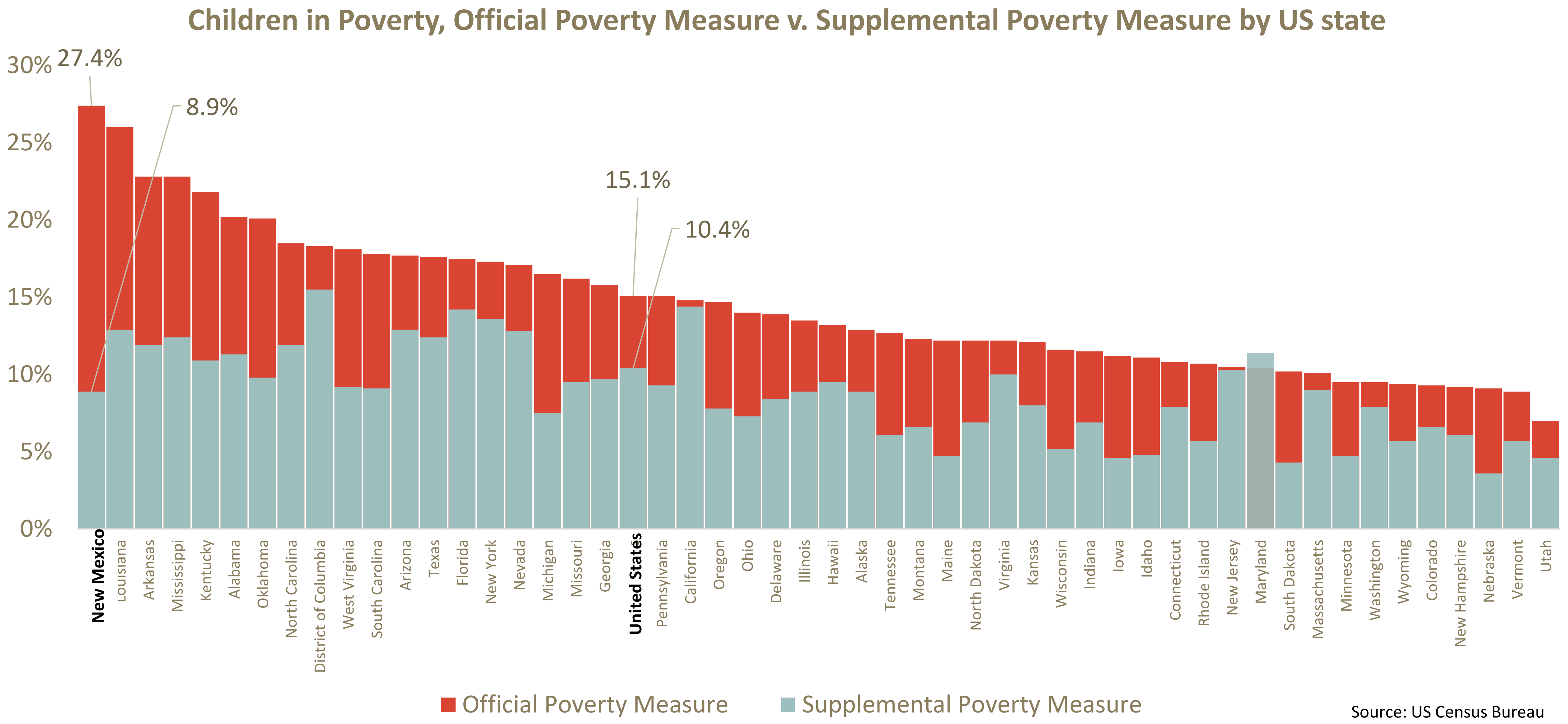
Source: AP analysis of data from U.S. Centers for Medicare & Medicaid Services

AP

How did New Mexico Improve from #27 to #9 in ITEP's 2023 "Who Pays" Tax Code Progressivity Ranking?

Major Progressive Tax Changes	Impact Per Year
Created new 5.9% top PIT Bracket (2019) – applies to about top 3% highest earners	+$45 million
Created $4,000 PIT Dependent Deduction (2019) – replaced repealed federal dependent deduction	-$27 million
Expanded PIT Working Families Tax Credit from 10% to 25% of federal EITC (2019 and 2021)	-$75 million
Reduced capital gains PIT deduction (2019 and 2024) - maintained $1 million deduction for sale of a New Mexico business	+$70 million
Expanded PIT Low-Income Comprehensive Tax Rebate (2021)	-$29 million
Reduced Statewide GRT rate by 0.25% (2022) – first statewide rate cut in 40 years	-$275 million
Created Income-Tested PIT Social Security Exemption - includes about 85% of seniors (2022)	-$97 million
Created PIT $30,000 Exemption for Military Retirement Benefits (2022)	-$11 million
Created and Expanded PIT Child Income Tax Credit (2022 and 2023) – up to $639 per child, depending on income	-$145 million
Reformed PIT Brackets (2024) – reduced tax on all filers, targeted to low and middle income	-$160 million

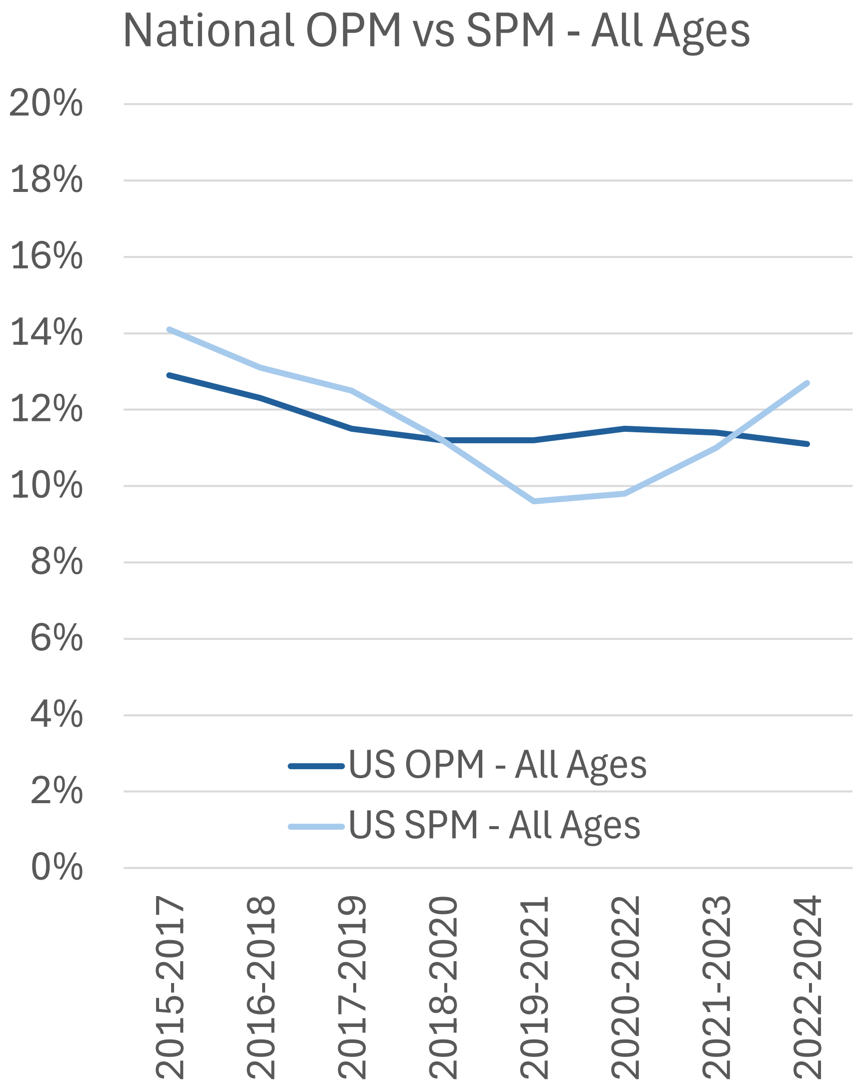
New Mexico Leads the Nation in Reducing Poverty, Enjoys Widest Improvement Between OPM and SPM

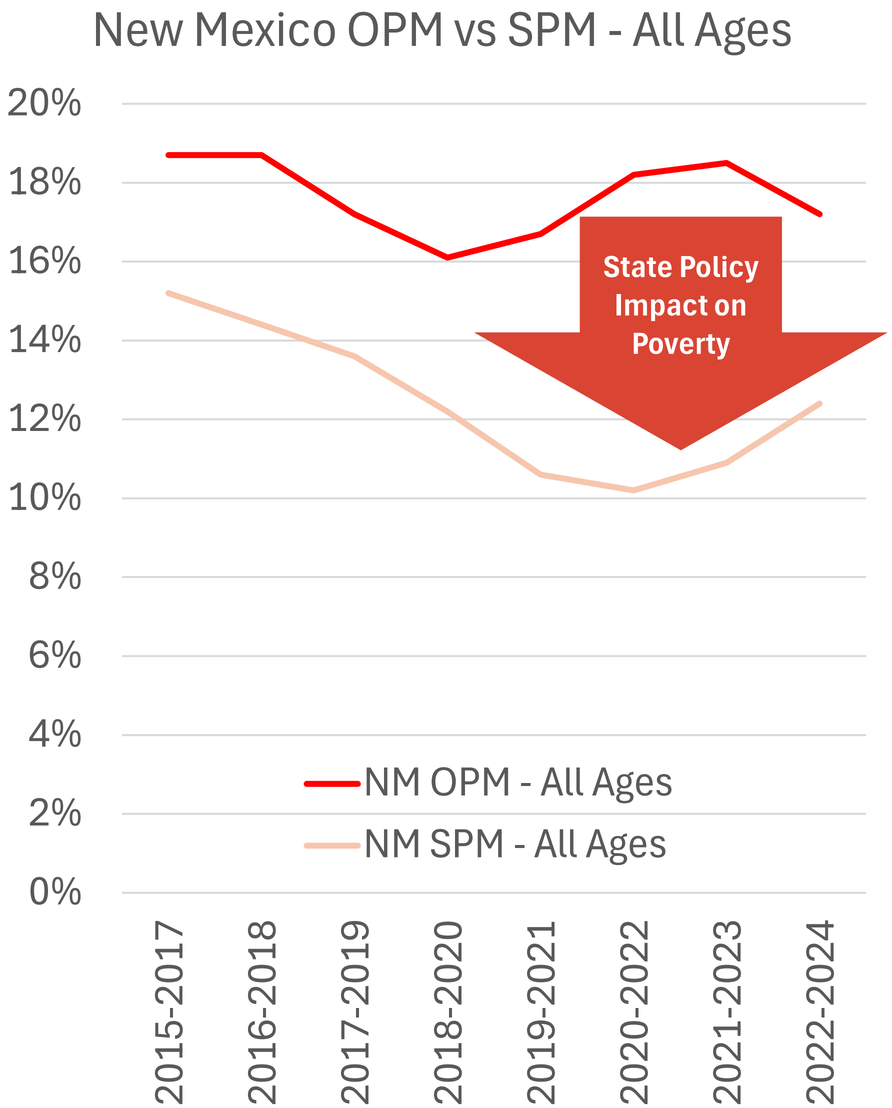


Source: US Census Bureau

OPM and SPM Over Time

- Nationally, the OPM and SPM are close - on average, policy is not making a dent in poverty
- But in New Mexico, the SPM consistently outperforms the OPM by the best in the nation– ***our policies are making a dent in poverty***





Source: US Census Bureau

Personal Income Tax is a Vehicle to Eradicate Poverty

- Nearly all the tax reforms New Mexico enacted to alleviate poverty in recent years are within the Personal Income Tax
- Marginal tax brackets are the first way PIT seeks to achieves fairness – brackets were restructured in 2024
- Refundable tax credits further reduce PIT liability for those will less ability to pay – child tax credit, working families tax credit (WFTC), low-income comprehensive tax rebate (LICTR), etc.
- New Mexico has a top PIT rate of 5.9%...
- But the average effective PIT rate across resident filers is 2.8% in Tax Year 2024, and less than 1% for filers with less than $25,000 income

New Mexico PIT Brackets by Income		
Head of Household, Surviving Spouses, and Married Filing Jointly	Married Filing Separately	Rate
Up to $8,000	Up to $4,000	1.5%
Over $8,000 to $25,000	Over $4,000 to $12,500	3.2%
Over $25,000 to $50,000	Over $12,500 to $25,000	4.3%
Over $50,000 to $100,000	Over $25,000 to $50,000	4.7%
Over $100,000 to $315,000	Over $50,000 to $157,500	4.9%
Over $315,000	Over $157,500	5.9%

Taxable Income	Number (%) of Returns	Effective PIT Rate			Average Tax Paid
		Residents	Non-Residents	All Filers	
$0	323,977 (28%)	0.0%	0.0%	0.0%	$0
Under $25,000	244,548 (21%)	0.9%	0.4%	0.9%	$331
$25,000-$50,000	257,900 (22%)	2.4%	0.9%	2.3%	$1,372
$50,000-$75,000	97,371 (8%)	2.9%	1.1%	2.6%	$2,359
$75,000-$100,000	60,737 (5%)	3.3%	1.2%	2.9%	$3,363
$100,000-$200,000	105,647 (9%)	3.6%	1.0%	3.1%	$5,298
Over $200,001	56,580 (5%)	4.2%	0.3%	1.7%	$13,368
Total	1,146,760 (100%)	2.8%	0.5%	2.0%	$1,905

Thank you!

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